EXHIBIT B

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of THE COMMONWEALTH OF PUERTO RICO, *et al.* Debtors.[1]	PROMESA Title III Case No. 17 BK 3283-LTS (Jointly Administered)
In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, Debtor.	PROMESA Title III Case No. 17 BK 4780-LTS
THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, and PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY, Movants, v. OFFICIAL COMMITTEE OF UNSECURED CREDITORS, *et al.* Respondents.	

[1] The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations.)

DECLARATION OF DAVID BROWNSTEIN IN SUPPORT OF JOINT MOTION OF PUERTO RICO ELECTRIC POWER AUTHORITY AND AAFAF PURSUANT TO BANKRUPTCY CODE SECTIONS 362, 502, 922, AND 928, AND BANKRUPTCY RULES 3012(A)(1) AND 9019 FOR ORDER APPROVING SETTLEMENTS EMBODIED IN THE RESTRUCTURING SUPPORT AGREEMENT

Pursuant to 28 U.S.C. § 1746, I, David Brownstein, hereby declare as follows under penalty of perjury under the laws of the United States of America:

1. I am a Managing Director and Head of Municipal Banking at Citigroup Global Markets Inc. ("Citi"). For decades, Citi has consistently been ranked as a top underwriter of municipal bonds.

2. The Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), as the representative of the Commonwealth of Puerto Rico (the "Commonwealth") and the Puerto Rico Electric Power Authority ("PREPA"), pursuant to section 315(b) of the *Puerto Rico Oversight, Management, and Economic Stability Act* ("PROMESA"), retained Citi to serve as investment banker and financial advisor to the Oversight Board in connection with the Oversight Board's statutory duties under PROMESA and its task of helping the Commonwealth and its instrumentalities achieve debt burdens that are sustainable. Citi has substantial expertise in municipal finance, capital markets, restructuring, and infrastructure and utility finance.

3. I have been at Citi for 25 years and actively involved in the municipal market for a total of 35 years, serving as underwriter or advisor to over 200 municipal issuers on both revenue and general obligation bonds with a total par amount in excess of $30 billion. In addition to a Bachelor's Degree from Beloit College, I hold a number of professional licenses from the Financial Industry Regulatory Authority. These include:

- General Securities Principal, Series 24;
- General Securities Representative, Series 7;

- Municipal Securities Principal, Series 53; and
- Municipal Securities Representative, Series 52.

4. I also served as past Vice-Chairman and then Chairman of the Municipal Executive Committee of the Securities Industry and Financial Markets Association ("SIFMA") from 2007 to 2008. For my work in connection with this role, I received the SIFMA 2012 Honor Roll Award.

5. I have been directly involved in assisting distressed governments and have served as a banker to Jefferson County, Alabama on its 2013 sewer refinancing and Detroit, Michigan on its 2014 water and sewer debt restructuring, and in getting both cases out of bankruptcy. These two debt restructurings were each a significant component of the total debt restructured as part of the largest bankruptcies in the history of the municipal market at the time.

6. With respect to Puerto Rico, I have been directly involved in the Oversight Board's ongoing efforts to restructure debt of the Commonwealth and its publicly-owned corporations and utilities, including PREPA and the Puerto Rico Sales Tax Financing Corporation ("COFINA"), among others. In COFINA, I participated in a lead role in the negotiations with claimholders and efforts that ultimately led to COFINA's successful plan of adjustment [Case No. 17-3284, ECF No. 561].

7. With respect to PREPA, I have been in a lead role in most aspects of Citi's engagement as a financial advisor to the Oversight Board, [2] including (i) reviewing the PREPA Fiscal Plan; (ii) serving as lead advisor in all negotiations on behalf of the Oversight Board in

[2] I am not directly involved in Citi's engagement with respect the ongoing efforts of the Puerto Rico Public-Private Partnership Authority (the "P3 Authority") to transform and modernize PREPA through private ownership or operation of the utility by a private operator ("Transformation"), which is led by a different team at Citi helmed by Sandip Sen and Frederic Chapados. I understand that Mr. Chapados will be concurrently submitting a declaration in support of the 9019 Motion and the positive effect the RSA is likely to have on the ongoing Transformation (the "Chapados Declaration").

conjunction with Proskauer Rose LLP ("Proskauer Rose"), and working with AAFAF[3] and PREPA and their advisors O'Melveny & Myers LLP ("O'Melveny") and Ankura Consulting LLC ("Ankura") to negotiate with claimholders regarding the resolution of their claims; (iii) structuring the new bonds that will be issued and exchanged for the legacy bonds (the "Securitization Bonds"); (iv) providing assistance to Proskauer Rose in drafting financial aspects of the May 3, 2019 Definitive Restructuring Support Agreement ("RSA"); and (v) making recommendations to the Oversight Board regarding acceptance of the material terms of the RSA.

8. I submit this declaration in support of the *Joint Motion of Puerto Rico Electric Power Authority and AAFAF Pursuant to Bankruptcy Code Sections 362, 502, 922, and 928 and Bankruptcy Rules 3012(A)(1) and 9019 for Order Approving Settlements Embodied in the Restructuring Support Agreement* [ECF No. 1235] (the "9019 Motion"), which seeks approval of the RSA.

9. Except as otherwise indicated, all facts set forth herein are based upon my personal knowledge based upon my work on behalf of the Oversight Board with respect to PREPA and its financial condition, as well as financial analyses performed by Citi employees at my direction, as well as my personal knowledge of the industry. If I were called upon to testify, I could and would testify competently as to the facts set forth herein.

Background on Negotiation and Execution of RSA

10. I am aware that PREPA currently has in excess of \$10 billion of outstanding liabilities. These liabilities include financial indebtedness comprised of, among other things,

[3] "AAFAF" is the Puerto Rico Fiscal Agency and Financial Authority, which together with the Oversight Board and PREPA are hereinafter referred to as the "Government Parties".

$8.259 billion in bond debt, which does not include unpaid interest accrued since the Petition Date.[4]

11. Approximately $6 billion (in face amount) of these bonds are uninsured. Holders of PREPA's uninsured bonds include members of the Ad Hoc Group of PREPA Bondholders ("Ad Hoc Group").[5] I am further aware that $2.25 billion in outstanding PREPA bonds are guaranteed by certain monoline insurance companies, specifically National Public Finance Guarantee Corp. ("National"), Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (collectively, "Assured"), and Syncora Guarantee Inc. ("Syncora") (collectively, the "Monolines").

12. PREPA's bonds are governed by a 1974 trust agreement, which has been amended from time to time (the "Trust Agreement"). I am aware that, prior to the execution of the RSA, the Monolines and the Ad Hoc Group argued that the Bonds are fully secured and holders are entitled to receive payment in full of their principal, plus unpaid interest under a plan of adjustment.[6] The Trust Agreement also includes a rate covenant, which is a contractual promise by the utility to raise rates as necessary to pay in full operating expenses and debt service obligations—in the case of the Trust Agreement's rate covenant, PREPA was obligated to set a higher charge, specifically one sufficient to cover operating expenses and 120% of debt service (the "Trust Agreement Rate Covenant"). The Trust Agreement Rate Covenant imposes the risk of reduced energy sales on PREPA ratepayers, exposing them to uncapped and unpredictable rate

[4] Adding interest accrued on the $8.259 billion prepetition balance of the bonds, including approximately $250 million in unpaid interest accrued prepetition, this total liability is currently in excess of $9.3 billion. *See* Table 2 below.

[5] The membership of the Ad Hoc Group changes from time to time. The identity of members at the time the RSA was executed is reflected in Annex A thereto.

[6] I further understand that Monoline representatives testified to this position at depositions that took place during the Receivership Motion.

increases if revenues at current rates are insufficient to meet expenses and debt service, for example due to declining usage. As a practical matter, because the cost of power directly impacts the cost of living and doing business in Puerto Rico, unpredictable rate increases make the creation of a sustainable economy materially less likely.

13. Over the past decade, PREPA was faced with many challenges, including, among other things, a prolonged recession that led to a drop in energy sales and deferral of essential maintenance of and improvements to the system. As the Commonwealth's and PREPA's financial condition worsened, PREPA faced an increasing debt crisis with its revenues falling short of the amount necessary to meet debt service and expenses. While PREPA was at that time essentially in *revenue* default of the Trust Agreement Rate Covenant (*i.e.*, PREPA was not raising revenues to meet its obligations, much less with a 20% cushion to debt service), it was able temporarily to avoid defaulting *on payment* because the Monolines and certain members of the Ad Hoc Group agreed to advance additional bond debt (which I refer to herein as "relending bonds") sufficient (with cash on hand) to continue to make debt service. To the best of my knowledge, these relending bond advances were made (i) in response to PREPA informing its advisors and creditors that default could cause its power plants to go dark because its fuel providers were threatening to require payment in advance for deliveries if PREPA defaulted on its debt obligations (a demand PREPA was not able to meet), and (ii) with the understanding that PREPA would repay these relending bonds almost immediately. As of the date of this Declaration, PREPA has only repaid the first series of the relending bonds; approximately $375 million remain outstanding and are included in the $8.259 billion prepetition balance noted above.

14. These factors ultimately led to the filing of a voluntary petition for relief for PREPA pursuant to PROMESA section 304(a), commencing a case under Title III thereof on July 2, 2017

(the "Petition Date"). PREPA has made no payments on the bonds since that date. PREPA's payment default has caused the Monolines to pay debt service on the bonds they guaranty.

15. Shortly after PREPA commenced its Title III case, the bond trustee, members of the Ad Hoc Group, the Monolines, and many other PREPA bondholders filed proofs of claim, each of which contend their claims to repayment by PREPA are fully secured and that they are entitled to payment of 100% of par on the outstanding bonds, plus interest (and fees) since the Petition Date.

16. PREPA has negotiated with certain of its stakeholders to address its principal financial indebtedness. I have been involved in these negotiations and have been the lead advisor negotiating for the Oversight Board, acting at its direction and based on its guidance. In this role, I interfaced at arms-length with counsel, principals, and financial advisors to PREPA's stakeholders.

17. Among those stakeholders are the members of the Ad Hoc Group, with whom I understand PREPA has engaged in negotiations to restructure its debt for over four years. I have been personally involved in those negotiations for the last two years. These protracted and complex negotiations ultimately led to the execution of a preliminary restructuring support agreement on July 30, 2018 (the "Preliminary RSA"). At the inception of Citi's engagement, I and others presented the Oversight Board and AAFAF with various options to approach a potential resolution. The structure of the Preliminary RSA was designed to meet the Government Parties' views and key objectives, which are further detailed below (¶¶ 24-29). I, along with Proskauer Rose, acted on behalf of the Oversight Board, and O'Melveny and Ankura acted on behalf of PREPA and AAFAF, in negotiating the Preliminary RSA in hard-fought negotiations with representatives of the Ad Hoc Group—principally their counsel, Kramer Levin, and financial

advisor, Houlihan Lokey. The Preliminary RSA contained the material economic terms of the securitization structure established by the RSA.

18. During the months leading up to the execution of the Preliminary RSA, we regularly interfaced with the Oversight Board and AAFAF as issues would arise and the negotiations progressed. Throughout this process, I telephonically and personally attended periodic strategy sessions with the members of the Oversight Board and the Board's Executive Director, Natalie Jaresko, and other advisors to the Oversight Board, including Proskauer Rose. At these meetings I provided updates to the Oversight Board as to the status of the negotiations with the Ad Hoc Group, particularly the "bid and ask" on an aggregate recovery from securitization bonds funded through a Transition Charge, and the amounts of the Transition Charge at various recovery levels. In response to the Oversight Board's views, I advised on how the new bonds could be structured, and how to effectuate the key objectives identified by the Oversight Board. I also regularly participated in discussions with Christian Sobrino, the Chief Executive Officer of AAFAF, and advisors to AAFAF and PREPA.

19. Following execution of the Preliminary RSA, the parties continued to negotiate toward a definitive restructuring support agreement, which took over nine months to accomplish. During this period, I along with Proskauer Rose continued to act pursuant to the Oversight Board's direction and, along with O'Melveny and Ankura on behalf of AAFAF and PREPA, interfaced with counsel and financial advisors for many of PREPA's stakeholders, including each of the Monolines, regarding their potential joinder to the RSA.

20. After several months of negotiations with the Monolines, discussions with Assured proved productive. My discussions took place primarily with Jorge Gana, Managing Director at Assured, who to the best of my knowledge conferred with Assured's counsel at Cadwalader,

Wickersham & Taft and its financial advisors at Lazard. Near the end of March 2019, Assured had come on board to the key terms of the structure that would result in the execution of the RSA on May 3, 2019.

21. Beginning with the negotiations leading to the Preliminary RSA, and continuing until finalization of the RSA, Proskauer Rose and I conferred and coordinated with O'Melveny and Ankura. We also conferred with the Oversight Board regarding settlement discussions with PREPA stakeholders. This included regular consultation with Ms. Jaresko, and weekly update calls with the members of the Oversight Board, to update the members on the progress of the negotiations, and in particular to explain how the key features of the negotiation were proceeding in line with the Oversight Board's objectives for resolving PREPA's indebtedness. Citi also held one-on-one conferences with individual members of the Oversight Board, both before and after these weekly updates, to walk through any questions they might have regarding the terms of the negotiated structure. During these meetings and conferences, which led to the Oversight Board's final decision to approve the RSA, members of the Oversight Board asked probing questions and provided guidance in structuring the overall transaction. Citi also presented Ms. Jaresko and the Oversight Board with financial analyses regarding the securitization structure.

22. Negotiations with PREPA's stakeholders have continued following the execution of the RSA. Approximately 72% of PREPA's bondholders (including Assured) have now joined the RSA. Additionally, an agreement in principle has been reached with Syncora,[7] which I expect will be formalized in an amendment to the RSA to be executed prior to the hearing on the 9019 Motion that will add Syncora as Supporting Holders. Assuming Syncora signs onto the RSA,

[7] The Government Parties are also in discussions with National to include it in the RSA and are optimistic it will join as well, although as of the date of this Declaration discussions have not resulted in an agreement in principle.

holders and insurers of over 74% of the outstanding PREPA bonds will have signed on to the RSA.[8]

23. The bondholders or bond insurers that have joined, or are shortly expected to join, the RSA are collectively referred to as the "Supporting Holders".

Key Economic Goals of the RSA

24. The Government Parties approached potential resolution of PREPA's bond indebtedness with clear objectives in mind. These objectives shaped the terms and structure of the ultimate agreement consummated in the RSA.

25. First, any recovery by PREPA's creditors had to be secondary to the Commonwealth's overall economic recovery, for which the recovery of PREPA plays an important role. That meant any agreed repayment of legacy debt could not outpace revitalization of the island's overall economy, and in particular the ability of PREPA's customers to pay any increased rates or additional charges required to service restructured PREPA debt.

26. Another key objective was to protect the Commonwealth and PREPA ratepayers by stabilizing rates and providing as much transparency and certainty as possible in future expected energy costs, so that consumers would not be subject to unexpected and unrestrained rate hikes. This meant ratepayers needed to be insulated from any potential lag in the economic recovery, or other developments that could negatively impact utilization of PREPA's grid and with it revenues needed to service bond debt.

27. Any agreement reached also needed to protect PREPA by facilitating its exit from Title III, fostering a healthy economic outlook for the future of the utility, including eliminating

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[8] The RSA does not establish plan treatment of claims of the bondholders (or for that matter any entities) that are not parties to it.

(or nearly eliminating) the threat of re-entering Title III in the future. The Government Parties would not approve a transaction that saddled PREPA with massive ongoing financial liabilities or the potential for being subject to extreme remedies under the specter of a future default.

28. These considerations included another basic point for the negotiations: reducing PREPA's debt obligations. There could be no agreement unless PREPA's stakeholders were willing to agree to a voluntary reduction in the amount of their claims as well as a reduction of the present value of PREPA's total debt service obligations. The Government Parties went into negotiations recognizing that the discount would be hard-fought. The parties had dramatically differing legal positions on whether the bonds were secured, with the Supporting Holders adamantly maintaining that they were fully secured and thus entitled to full repayment of their debt plus interest, and the Government Parties contending that they were secured by a limited amount of collateral and thus undersecured.

29. Finally, the Government Parties were not willing to agree to a restructuring that would negatively impact Transformation of PREPA, a goal the Oversight Board and the Government of Puerto Rico jointly regard as of paramount importance to PREPA's future and that of the Commonwealth itself. This goal ran in tandem with the other goals to reduce the overall financial burden and risk on PREPA and its ratepayers, but added an additional key component to any agreement that would be reached: to avoid disruption to the Transformation bid process, Supporting Holders would have to stay patiently on the sidelines and wait until the effective date of a confirmed plan of adjustment before receiving the new securitization bonds. Plan effectiveness, in turn, is conditioned upon consummation of the Transformation currently in process and expected to occur in mid-2020.[9]

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[9] *See* Chapados Declaration, ¶ 14.

The Elements of the RSA Satisfied the Key Economic Goals

30. The ultimate agreement PREPA reached with the Supporting Holders satisfied each of the above key objectives, leading to the Oversight Board's decision to approve the RSA.

31. *Overview*. As further detailed below, the RSA more than meets the Government Parties' original goals. In addition to reducing the debt by at least $2 billion and reducing the present value of PREPA's debt service by over 40% (and potentially much higher, depending on utilization), the RSA caps rate increases to pay debt and very substantially eliminates risk of default because payment of less than what is due simply results in extending the debt maturity and not the possible imposition of crippling remedies. RSA, Exhibit C (Recovery Plan Term Sheet), § X(a) provides there is no default for paying less than required as long as the transition charge is paid to bondholders, no matter how small the charge is. Put differently, the debt to be issued under the RSA is wholly different from the existing debt and is so much more benign that its amount matters less because consumers are protected against rate increases.

32. The RSA avoids the possibility of a receivership remedy and resolves legal disputes with the Supporting Holders, who also commit to accept plan treatment designed to satisfy only a discounted allowed claim for plan purposes and to avoid the right to trigger increases in electricity prices beyond a fixed amount (even if they will not otherwise be paid in full). In exchange, PREPA commits to propose a plan of adjustment that provides for the discounted allowed claim. Additionally, the Government Parties' agreed to allow certain payments and accrue certain administrative claims between approval of the RSA and plan confirmation.

33. *Reduction of Claimed Legacy Debt*.[10] The RSA provides that Supporting Holders will exchange legacy bonds for new securities to be issued by a bankruptcy remote special purpose

[10] *See* RSA, Recovery Plan Term Sheet §§ II, IV-VI.

Case:17-03283-LTS Doc#:8412-3 Filed:08/08/19 Entered:08/08/19 16:43:00 Desc: Exhibit B Page 14 of 231

vehicle (the "Securitization SPV") with materially less than a 100% exchange ratio and an even greater reduction in the present value of PREPA's debt service obligations. This is significant because the Supporting Holders claim, not only that they are entitled to 100% par on their legacy bonds, but that they are additionally entitled to post-petition interest (and fees).

34. The legacy bonds will be exchanged for two different classes of Securitization Bonds, with Tranche A bonds exchanged at 67.5% of principal amount of outstanding bonds (including accrued and unpaid interest from the Petition Date through May 1, 2019 of approximately $791 million) and Tranche B at 10% of principal amount of outstanding bonds. There is no cash flow (payment) on the Tranche B bonds until the Tranche A bonds are paid in full, which means that if electricity utilization is so low that the Tranche A bonds fail to pay off in 47 years, the Tranche B bonds will not receive any debt service at all. The Tranche B bonds may never be paid in full because "[a]ny amounts on such Tranche B Bonds not paid with Transition Charge Revenues imposed prior to the stated final maturity of the Tranche B Bonds shall not be recoverable by Bondholders." RSA, Recovery Plan Term Sheet § VI(a)(vi). The Tranche A and B bonds will yield a recovery of no more than 77.5% of the bond claims (with accrued and unpaid interest from the Petition Date through May 1, 2019), and the Tranche A and B bonds should be worth materially less than 77.5% of the bond claims when issued because collection is contingent and remedies are limited.

35. Because payment under the Tranche B bonds is contingent upon payment of the Tranche A bonds, there are three scenarios for Supporting Holder recovery: (i) no payments made on account of the Tranche B Bonds, in which case the only recovery is on Tranche A bonds, at

67.5% of par plus accrued interest through May 1, 2019;[11] (ii) the expected cash flow based on the April 2018 fiscal plan load projections; and (iii) the maximum recovery provided to Tranche B bonds (payment up to their top exchange ratio of 10%) in the event actual load projections outperform the fiscal plan projections,[12] in which case the total recovery on the bond claims at par plus accrued interest though May 1, 2019 would be 77.5%.

36. In negotiating the terms of the RSA, it was also necessary to compensate Supporting Holders in consideration of their prepetition relending bonds that remain outstanding and forbearance from exercising any rights or remedies, or seeking stay relief to do so, pending implementation of the RSA—a delay that could total two years from execution of the Preliminary RSA.[13] As illustrated below (¶¶ 60-67), Supporting Holders are entitled to a Waiver and Support Fee, an Administrative Claim, and Settlement Payments (which reduce the amount of the Administrative Claim). The Waiver and Support Fees are a designated percentage of 1.62% of the bond claims calculated as principal plus accrued interest through May 1, 2019. Supporting Holders will also receive a Settlement Payment in monthly cash disbursements equal to 0.92 cent/kWh from September 1, 2019 through the implementation date. They will also be entitled to an Administrative Claim in the amount of interest they would have received on their Tranche A Bonds at 5.25% starting May 1, 2019 for those who joined the RSA by May 31, 2019, less the cash Settlement Payments they receive as described above. In aggregate, the Administrative Claim and

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[11] If utilization is lower than current projections by approximately 18% or more over the 47 year term of the Tranche B bonds there will be no cash flow to Tranche B.

[12] The Oversight Board views this as unlikely, and the fiscal plan utilization projections suggest that recovery on the Tranche B would instead be approximately 5.5%, not the full 10%.

[13] As compared to COFINA for example, where the settlement was executed in August 2018 and the plan was confirmed and consummated approximately six months later. [Case No. 17-3284, ECF. No. 561].

Settlement Payments represent 4.23% of the bond claims again calculated based on par plus accrued interest through May 1, 2019.

37. To understand the overall reduction in liability on PREPA's bond indebtedness the RSA will yield, Table 1 below describes the total amount of consideration to bondholders contemplated by the RSA, differentiated based on the three Tranche B scenarios discussed in ¶ 35:

Table 1

Case	Tranche B (i): No Cash Flow	Tranche B (ii): Expected Cash Flow	Tranche B (iii): Full Value
Tranche A	$6,277,732,486	$6,277,732,486	$6,277,732,486
Tranche B	$0	$508,061,103	$930,034,442
Waiver & Support Fee (Tranche A)	$151,079,902	$151,079,902	$151,079,902
Administrative Claim or Settlement Payment (from May 1, 2019 through July 1, 2020)[14]	$393,764,759	$393,764,759	$393,764,759
Total payout:	$6,822,577,147	$7,330,638,250	$7,752,611,589

38. Table 2 below describes the total contemplated payout under the RSA (again under the three Tranche B scenarios set forth in ¶ 35) as compared to the total existing indebtedness on the legacy bonds, as calculated (a) assuming accrued interest only through the Petition Date, (b) assuming accrued interest through May 1, 2019, and (c) assuming accrued interest through the expected plan effective date of July 1, 2020:

[14] As further described below, a Settlement Payment is also contemplated by the RSA, but it would reduce the total amount of the Administrative Claim. To simplify the calculation, this analysis reflects any Settlement Payment amounts as part of the Administrative Claim (stated without crediting the Settlement Payments).

Table 2

Case	Tranche B: No Cash Flow	Tranche B: Expected Cash Flow	Tranche B: Full Value
Total Claims (Principal Plus Interest) through July 1, 2020[15]	$9,828,735,876	$9,828,735,876	$9,828,735,876
Total Claims (Principal Plus Interest) through May 1, 2019	$9,300,344,424	$9,300,344,424	$9,300,344,424
Total Claims (Principal Plus Interest) through July 2, 2017 (Petition Date)	$8,508,396,331	$8,508,396,331	$8,508,396,331
Total Dollars Payable Under RSA to Holders through July 1, 2020	$6,822,577,147	$7,330,638,250	$7,752,611,589
Difference between the Total Claim (through July 1, 2020) and Total RSA Payout	$3,006,158,729	$2,498,097,626	$2,076,124,287

39. As reflected by the Table 2 calculations, after taking into account all amounts payable in cash and new bonds under the RSA through July 1, 2020, assuming all of the PREPA bonds are subject to the RSA, the RSA reduces PREPA's liability on its total secured debt accrued through an assumed exit date of July 1, 2020 by at least $2 billion and up to $3 billion, depending on the ultimate recovery on the Tranche B bonds. If, however, as the Supporting Holders contend, PREPA's legacy bond debt is fully secured, PREPA's total secured debt outside would be approximately $9.8 billion (including three years of post-petition interest accrual). Therefore, the

[15] Certain of the legacy bonds have variable rates that are not capable of presently being known. This analysis assumes the rate going forward will be equal to the historical average of the last year to calculate the accrued interest.

RSA provides a savings of more than 20% on PREPA's bond indebtedness with interest through the estimated plan effective date, at the low end, and more than 30%, at the high end.

40. This substantial reduction in the par amount of the bonds does not account for the additional substantial reduction in the present value of PREPA's debt service obligations, which are further explored in the next section. As reflected in Tables 3 through 5, depending on whether ratepayer utilization meets fiscal plan projections or declines by 20%, the present value of the debt service to be implemented by the RSA will amount to a decrease of between 41.2% and 76.5%—a significant discount to PREPA in the present value of the total debt service.

41. *Capped, Predictable Transition Charge with No Rate Covenant*.[16] The RSA provides for a new rate structure that will include a predictable and capped transition charge—a separate charge that will be added to all PREPA ratepayers' bills beginning at the effective date of plan confirmation[17] and allocated to service the Securitization Bond indebtedness (the "Transition Charge"). Unlike the legacy bonds, the RSA provides that the Transition Charge is a capped charge that will gradually increase in set amounts over the first twenty-four years after issuance of the new bonds. The RSA sets forth the periodic increases, with the charge beginning at 2.768 cents per kilowatt-hour ("kWh") and rising to a maximum of 4.552 cents per/kWh,[18] but the actual amounts will be set at plan confirmation and may vary slightly from these stated numbers based on the timing of the plan effective date and the final percentage of bondholders who join the RSA and receive any of the pre-exit benefits described above that are payable in Tranche A bonds[19].

[16] *See* RSA, Recovery Plan Term Sheet § III.

[17] Or March 31, 2021, whichever is earlier. RSA, Recovery Plan Term Sheet § III(b).

[18] RSA, Recovery Plan Term Sheet § III(a)(i)-(xviii).

[19] I believe that, if anything, the final Transition Charge amounts will be lower than set forth in the RSA, as it assumes 100% participation of bondholders with the full Administrative Claim accruing starting May 1, 2019. RSA, Recovery Plan Term Sheet, fn 2.

As a unique feature of the Securitization Bonds the Government Parties negotiated, the capped Transition Charge, although subject to the Demand Protections as described below, will not otherwise be subject to increase even if electricity usage or revenues are lower than projected, and insufficient to cover scheduled debt service on the Securitization Bonds. The precise amounts of the gradual Transition Charge increases will be set at plan confirmation, and those amounts will be published and will remain available to PREPA customers.

42. The Transition Charge will not continue in perpetuity; rather, it will only appear on ratepayer bills until the later of the date the Tranche A bonds are satisfied in full, or the Tranche B bond maturity date (forty-seven years from issuance, if not already paid off).[20] As a result, the Tranche B bonds are contingent debt, and the Supporting Holders may never be paid in full on the Tranche B bonds.

43. The RSA contains a feature that, in my experience, provides an unprecedented benefit to ratepayers. Unlike standard municipal debt (including, for example, the legacy bonds), there is no provision in the RSA for a Securitization Bond rate covenant, which means the RSA does not contractually obligate PREPA to increase rates to ratepayers above the Transition Charge to cover debt service, subject only to the Demand Protections.

44. With respect to Demand Protections specifically, the RSA provides that, upon issuance of the Securitization Bonds, the legislature will enact certain demand protection measures intended to provide reasonable assurances that the Transition Charges will be paid by Customers and that the future Government policies, for example, will not reduce Transition Charge revenues

[20] RSA, Recovery Plan Term Sheet § X(c). Tranche A and Tranche B bonds have different exchange rates, as further set forth in ¶ 34 above.

otherwise contemplated by the Parties. The Demand Protection Term Sheet[21] describes the mechanics through which the Transition Charges are to be assessed on all Customers (provided that grandfathered behind-the-meter generation Customers will not be charged for their behind-the-meter electricity generation but will be charged for any power purchased from PREPA). Accordingly, under certain specific circumstances the Transition Charge could increase for paying Customers as a result of nonpayment by other Customers in three scenarios: (i) if the Government provides subsidies or exemptions from paying the full electric rate to certain categories of Customers; (ii) if the Government or instrumentalities fail to pay their own power bills in full; or (iii) if the general public fails to pay their bills in full (subject to a non-payment allowance of 1.5% for the general public). The point of these measures is to ensure the debt service on the Securitization Bonds is not impaired by nonpayment of electric bills. In such circumstances, the Transition Charge would only increase for the following year, in an amount sufficient to recover past due amounts resulting from these scenarios. Once recovered, the Transition Charge will be reduced back to the scheduled amount. With a private operator in place, the Government Parties believe the impact of non-payment or non-collection will be minimal—unlike PREPA historically, a private operator will be more likely to implement penalties such as cutting off power for nonpayment.

45. The inclusion of a fixed Transition Charge and omission of a rate covenant is a significant advantage for PREPA ratepayers over the Trust Agreement. As is typically the case, the existing Trust Agreement Rate Covenant has the practical effect, under Commonwealth law, of a floating charge—obligating PREPA to raise its rates, uncapped, to ensure payment of debt

[21] RSA, Exhibit C (Recovery Plan Term Sheet), Annex A (Securitization Term Sheet), Schedule I-A (Demand Protection Term Sheet).

service and expenses (plus a cushion of 20% for debt service), leading to increased rates in cases of reduced energy use and revenues, and potential unpredictable spikes in energy bills.

46. By eliminating the existing Trust Agreement Rate Covenant and including a fixed Transition Charge that does not float, the RSA protects ratepayers in the event of reduced demand for energy on the island due to population decrease, economic downturn, or technological innovation.[22] As a result, even if demand for PREPA's services decreases as a result of these or other circumstances, the rates imposed by the Transition Charge on ratepayers are fixed and known, allowing PREPA consumers to budget for the gradual increases that are intended to rise in step with the Commonwealth's overall economic recovery.

47. As noted, the omission of a security structure that ensures timely repayment (either with a coverage requirement and/or a true up mechanism) in municipal debt instruments is, to my knowledge, unprecedented. I am unaware of any similar circumstance where the bond indenture does not require the utility to raise rates and charges to cover debt if utilization or revenues decline. The RSA thus shifts the risk of low demand, resulting in reduced system revenues, from ratepayers to Supporting Holders. Achieving the Supporting Holders' agreement to this unique structure was one of the most significant components of the agreement reached in the RSA, and was critical in achieving the Government Parties' key objectives.

48. To illustrate the value to ratepayers in achieving the fixed Transition Charge with no rate covenant, the analyses contained in Table 3, Table 4 and Table 5 illustrates how the RSA maintains a lower average rate for ratepayers, particularly in cases of reduced utilization.

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[22] PREPA also agreed to include specific terms in the RSA, referenced as "Demand Protections," in case utilization of the grid decreased as a result of "behind the meter generation" for example, in the case of use of alternative energy sources. In that event, customers will either pay a fixed charge on their bill based on average prior usage or will pay the transition charge based on a special revenue grade meter that will measure the amount of electricity that is generated by the meter. *See* RSA, Exhibit C (Recovery Plan Term Sheet), Annex A (Securitization Term Sheet), Schedule I-A (Demand Protection Term Sheet).

49. First, working off baseline utilization projections from the April 2018 PREPA fiscal plan, the average Transition Charge under the RSA is significantly lower than would be required under Commonwealth law.

Table 3

Rate Comparison FY 2020-Term (Commonwealth law vs. RSA) if Fiscal Plan Projections Are Met			
	Avg. Transition Charge (c/kWh)	Max Charge (c/kWh)	PV of debt service, at 5.25% discount
RSA	3.988	4.552	7,596,549
Legacy Power Revenue Bonds (including relending)	6.190	7.731	10,729,633
Legacy % higher than RSA	55.2%	69.8%	41.2%

50. If utilization is 10% lower than the fiscal plan projections, then, as shown in Table 4, the RSA provides an even greater benefit to ratepayers.

Table 4

Rate Comparison FY 2020-Term (Commonwealth law to RSA) if Utilization Decreases by 10%			
	Avg. Transition Charge (c/kWh)	Max Charge (c/kWh)	PV of debt service, at 5.25% discount
RSA	3.988	4.552	6,836,894
Legacy Power Revenue Bonds (including relending)	6.878	8.590	10,729,633
Legacy % higher than RSA	72.4%	88.7%	56.9%

51. If utilization is 20% lower than the fiscal plan projections, then, as shown in Table 5, the RSA provides a greater benefit still to ratepayers.

<u>Table 5</u>

Rate Comparison FY 2020-Term (Commonwealth law to RSA) if Utilization Decreases by 20%			
	Avg. Transition Charge (c/kWh)	Max Charge (c/kWh)	PV of debt service, at 5.25% discount
RSA	3.988	4.552	6,077,239
Legacy Power Revenue Bonds (including relending)	7.737	9.663	10,729,633
Legacy % higher than RSA	94.0%	112.3%	76.5%

52. Note, in particular, that although under the Table 4 and Table 5 scenarios there is significantly reduced usage and revenues, under the RSA the Transition Charge does not change, and holders of Tranche B bonds would receive little to no cash flow.

53. As reflected in Table 3, the present value of the legacy contractual power revenue bond and relending bond debt service is higher than the present value of PREPA's RSA expected debt service by more than 41% (assuming (i) a 5.25% discount rate; (ii) unpaid principal and interest through 2021 is re-amortized through the existing term as level debt service; and (iii) the baseline PREPA Fiscal Plan energy usage projections). Because the RSA has a capped charge, this reduction will be even more substantial if future PREPA energy usage declines further than projected, since the RSA shifts this demand risk to the bondholders. Again, by contrast, under the legacy bond fixed debt service obligations and rate covenant, this risk was borne entirely by PREPA residential and business ratepayers.

54. To illustrate the significant value of this aspect of the RSA to ratepayers, if future usage of PREPA energy declines 10% more than projected by the PREPA fiscal plan, the present value of the legacy contractual power revenue bond and relending bond debt service is higher than the present value of PREPA's RSA expected debt service by approximately 57% (assuming that same 5.25% discount rate and assumptions as mentioned previously). If future usage of PREPA energy declines 20% more than projected by the PREPA fiscal plan, the present value of the legacy contractual power revenue bond and relending bond debt service is higher than the present value of PREPA's RSA expected debt service by approximately 76%, (again, assuming that same 5.25% discount rate and assumptions).

55. *<u>"Non-Default" Securitization Structure</u>*. The RSA also provides for a unique securitization structure where (i) the exchanged bonds are issued by a separate entity, the Securitization SPV, rather than the utility itself; and (ii) a failure to pay debt service due to insufficient Transition Charge revenues will not result in default on the Tranche A or Tranche B bonds.[23]

56. The conventional way to restructure municipal debt, such as PREPA's bond debt, would be for the utility to exchange old bonds by reissuing new, restructured revenue bonds. In this case, however, we sought to avoid several problems inherent in that typical structure: (i) it would retain the possibility of future default on the new bonds and PREPA re-entering Title III; and (ii) it would put Transformation at risk (as it would continue to saddle PREPA with significant legacy debt to service, and the risk of untenable rate increases and possible default, with which

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[23] *See* RSA, Exhibit C (Recovery Plan Term Sheet), § X(a) ("No default on Tranche A Bonds for failure to pay scheduled debt service prior to maturity so long as full amount collected under the Transition Charge (minus administrative fees) is used to pay debt service. Interest shall continue to accrue (and compound, as applicable) at the original Coupon rate."); *id.* § X(b) (same for Tranche B bonds except "[i]nterest shall continue to accrue (and pay-in-kind, as applicable) and accrete at the original Coupon rate.").

any rational investor or operator/manager would be wary to involve itself). Under the RSA, however, because PREPA itself is not issuing or guaranteeing the new bonds, any failure to pay those bonds will not be a default by PREPA, thereby avoiding the threat of returning to Title III in the future.

57. It is also typical for municipal debt instruments to provide for certain rights and remedies when debt service is not timely paid. This will not be the case for the new Securitization Bonds. Failure to make payments on the bonds when due will not, as noted above, trigger either an increase to the Transition Charge or raise interest rates on the bonds. Under the terms of the Securitization Bonds set forth in the RSA, the interest accrued for any period is paid only to the extent receipts from the Transition Charge during such period are sufficient to pay debt service; interest otherwise accrues until the next payable period. Principal is amortized in any period only to the extent of available receipts from the Transition Charge after payment of interest.[24] Because the new bonds are structured so that if there is not enough revenue generated from the Transition Charge to pay debt service in a given period, the entitlement waterfalls to the next period, the structure is a "no default" structure.[25] In addition, PROMESA provides for the ability to restructure debt through a creditor collective action under Title VI. During negotiations, bondholders were insistent that their debt be restructured through a Title VI process that would be consummated immediately—before a plan was proposed, much less confirmed.

[24] *See* RSA, Exhibit C (Recovery Plan Term Sheet), § II (describing that change shall occur on the Effective Date, which is defined in RSA Section 1(a)(xlviii) to be "the date upon which all the conditions to the effectiveness of the Plan have been satisfied or waived . . . .").

[25] Technically, there still can be a "default" if the servicer does not perform, but the sole remedy will be to change the servicer. RSA, Exhibit C (Recovery Plan Term Sheet), § XI(a) (Remedies . . . will include, at a minimum, the right to replace the Transition Charge servicer and the right to enforce the Securitization Bonds' trust agreement' the servicing agreement, and non-impairment covenants. Requirements for replacement [of] servicer to be mutually agreed upon as part of Definitive Documentation.").

58. *No Exchange of Marketable Securities Until Plan Confirmation*. Another unique feature of the RSA is that Supporting Holders have been substantially delayed in receiving any recovery on their legacy bonds, and will likely be further delayed for another year. In an ordinary utility restructuring, the creditors would only wait six to twelve months after the restructuring support agreement is signed before the exchange of publicly tradeable bonds. Here, however, Supporting Holders bondholders have not received any debt service payments for two years (*i.e.*, since the Petition Date), and are also owed repayment on a significant amount of outstanding relending bonds. This situation is not about to change imminently. It has already been two months since RSA Parties signed the RSA, and the Supporting Holders will have to wait at least another year before they can exchange their existing bonds for the Tranche A and Tranche B bonds. That is because the Government Parties did not want to restructure the Bonds through a Title VI proceeding until it was able to complete Transformation, and plan consummation is not contemplated until Transformation is ready to close. The Administrative Claims, Settlement Payments, and Waiver and Support Fees are intended to reasonably compensate Supporting Holders for agreeing to lock in to plan treatment through an RSA that will have lasted at least two years, and the significant delay in any debt service (which would otherwise be three years at the time of expected Title III exit and consummation).

59. *Litigation Resolved and Avoided*.[26] The RSA also expressly resolves pending litigation, while other provisions reduce the likelihood of litigation. The RSA requires all Supporting Holders to withdraw any pending requests for stay relief, commit not to request other remedies while PREPA abides by the RSA, and commit to accept plan treatment designed to satisfy only a discounted, allowed claim. Moreover, by exchanging the legacy bonds for new

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[26] *See* RSA §§ 2(b), 3(m).

Securitization Bonds issued by the SPV, the holders are giving up their rights of enforcement that accompanied the legacy bonds—in particular the rate covenant and receiver remedy, which are not features of the new bonds contemplated by the RSA. The elimination of these rights reduces the likelihood of the cost and delay attendant to litigation and the uncertainty in outcome. This also provides a benefit to any future private owner or manager of PREPA.[27]

Additional Economic Terms Necessary to Achieve Agreement

60. To reach consensus, and in particular to obtain concessions that were critical to the Government Parties' key objectives as expressed above, the Government Parties compromised and agreed to compensate Supporting Holders due to the delayed timing in resuming principal and interest payments, and their ability to exercise or assert any rights or remedies under the Trust Agreement or other applicable law pending effectiveness of a Plan for PREPA (as so long as the RSA is in effect). These payments do not reduce the balance of the prepetition bond claims, nor do any of them undermine the Government Parties' key objectives stated above. To the contrary, they were a necessary component of the bargaining process to reach the overall settlement.

61. *Accruing Administrative Claim*.[28] Supporting Holders that join the RSA before September 1, 2019 will be entitled to a post-petition administrative claim in an amount equal to interest under the Tranche A bonds, with accrual beginning on various dates depending on the date the holder joined the RSA.[29] (Accruing Administrative Claims shall be reduced by the amount of

[27] *See* Chapados Declaration, ¶¶ 25, 27.

[28] *See* RSA §§ 2(d)(iii)-(iv).

[29] Specifically, a Supporting Holder who joins the RSA by May 31, 2019 is entitled to an allowed post-petition administrative claim in an amount equal to interest on the Tranche A bonds to which such Supporting Holder would be entitled to receive on account of its claim, accrued from May 1, 2019 through the Effective Date of the plan or termination of the RSA. Supporting Holders that join the RSA after May 31, 2019 and prior to entry of the order approving the RSA shall receive the Administrative Claim that starts accruing on the date the order is entered. Supporting Holders that join the RSA after the date the order is entered and prior to September 1, 2019 shall receive the Administrative Claim that starts accruing on September 1, 2019. Since the hearing on the Rule 9019 Motion is

any Settlement Payments, which are further described below.) Termination of the RSA terminates a party's right to receive the Administrative Claim, except in the case where plan confirmation is not achieved after two attempts, in which case the Administrative Claim shall stop accruing as of the date the first failed confirmation attempt. The Administrative Claim is payable in Tranche A bonds or cash, at the discretion of the Government Parties.

62. The Administrative Claim is meant to compensate Supporting Holders for reaching an early resolution to their claims in light of the time PREPA will remain in Title III pending completion of the concessionaire process, thereby minimizing litigation and disruption, including in particular with respect to PREPA's ongoing efforts to privatize. This expense also benefits PREPA by incentivizing early buy-in to the terms of the RSA.

63. *Settlement Payments*.[30] Supporting Holders that join the RSA before September 1, 2019 will receive a monthly cash payment funded from a 1 cent per kWh charge, which will be added to PREPA's bills starting July 1, 2019.[31] If the RSA terminates due to certain circumstances,[32] no further Settlement Payments will be made and the parties reserve all rights regarding how such payments would be credited.

64. The RSA provides that, if plan confirmation is not achieved by March 31, 2021, the Settlement Payments will increase and be paid from implementation of the full initial

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not until after September 1, 2019, the date of entry of the order will no longer have any bearing on calculation of the administrative claim of any holder under the RSA.

[30] *See* RSA §§ 2(d)(i)-(ii).

[31] The RSA provides that payment will commence on August 30, 2019 (subject to a thirty day cure period), but I understand this date may change in light of the adjourned hearing date on the 9019 Motion (and the fact that under the RSA, no Settlement Payments are due before the Court approves the 9019 Motion). The amount Supporting Holders are entitled to will be commensurate with their pro rata share of an amount equal to the number of kilowatt hours billed by PREPA in the prior month, multiplied by $0.0092.

[32] Specifically if a "Stipulated Treatment Termination" occurs. *See* RSA §9(c).

Transition Charge (subject to legislative approval). Collections would be paid monthly on a pro rata basis to each Supporting Holder who signs on to the RSA before September 1, 2019.

65. The purpose of the Settlement Payments is to provide a relatively small amount of cash flow to Supporting Holders who have not received any debt service for the two years since PREPA filed Title III and will likely otherwise receive nothing for another year. Settlement Payments will be credited against and reduce the amount of the Administrative Claims, and are thus not duplicative consideration. These payments were a necessary component to the agreement in light of the Supporting Holders' previously-described concessions, which facilitated the Government Parties achieving their key objectives through the RSA.

66. *Adequate Protection Payments*.[33] If PREPA's plan of adjustment is not confirmed by March 31, 2021, and the legislature does not act to approve the Transition Charge to cover increased settlement payments referred to at ⁋ 64 above, PREPA will be obligated to use system revenues to fund the increased monthly cash payments.

67. *Waiver and Support Fee*.[34] Certain Supporting Holders who were early parties to the RSA are entitled to an additional settlement fee in the form of Tranche A bonds, which will be payable on plan effective date. This fee provided an incentive to reach a settlement, which was intended to (and has) provided momentum for broader holder buy-in to the RSA.

Reasonableness of Settlement

68. In approaching potential settlement, I repeatedly discussed with the Oversight Board, Proskauer Rose, Mr. Sobrino, O'Melveny, and Ankura the best and worst case scenarios and worked within those parameters in negotiating a resolution with the Supporting Holders. In

[33] *See* RSA § 2(e)(vii).

[34] *See* RSA § 4.

my judgment, the settlement achieved and formalized in the RSA was well within the range of a reasonable settlement, considering the Government Parties' key objectives and the differing legal positions of the parties and the risks to PREPA regarding the amount of and security for their claims and the receivership litigation. I expressed that view to the members of the Oversight Board and Ms. Jaresko.

69. The value to the Commonwealth and PREPA's ratepayers of avoiding an uncapped, floating transition charge or other uncapped rate adjustments in favor of the RSA's fixed, predictable Transition Charge cannot be overstated. This was the Government Parties' primary goal in negotiating with Supporting Holders and, I believe, the RSA achieves the Government Parties' goals for the people and businesses of Puerto Rico. That accomplishment, paired with (i) an anticipated savings of approximately $2 to $3 billion on face amount (*i.e.*, par plus accrued interest) of bond indebtedness; and (ii) the no-default securitization structure, have greatly reduced the burden on PREPA, which ultimately benefits the Commonwealth at large.

70. For the Government Parties to achieve their goals, the Supporting Holders have waited and must continue to wait to be repaid less and with significantly less recourse than was provided under the Trust Agreement. That necessitated, as part and parcel of the arms-length negotiating process, agreeing to the additional consideration that is beneficial to the Supporting Holders, while not undermining the Government Parties' key economic objectives.

71. While there likely are myriad other settlement permutations that perhaps could have been reached, as well as the possibility of not reaching any settlement at all, the settlement negotiated by the RSA Parties and is embodied in the RSA was a reasonable middle ground accommodation of the parties' disputes.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: July 2, 2019
New York, New York

/s/ David M. Brownstein
David M. Brownstein
Managing Director
Citigroup Global Markets Inc.

Case:17-04780-LTS Doc#:1427 Filed:07/02/19 Entered:07/02/19 23:23:28 Desc: Main Document Page 1 of 47

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of THE COMMONWEALTH OF PUERTO RICO, *et al.* Debtors.[1]	PROMESA Title III Case No. 17 BK 3283-LTS (Jointly Administered)
In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, Debtor.	PROMESA Title III Case No. 17 BK 4780-LTS
THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, and PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY, Movants, v. OFFICIAL COMMITTEE OF UNSECURED CREDITORS, *et al.* Respondents.	

[1] The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations.)

DECLARATION OF FREDERIC CHAPADOS IN SUPPORT OF JOINT MOTION OF PUERTO RICO ELECTRIC POWER AUTHORITY AND AAFAF PURSUANT TO BANKRUPTCY CODE SECTIONS 362, 502, 922, AND 928, AND BANKRUPTCY RULES 3012(A)(I) AND 9019 FOR ORDER APPROVING SETTLEMENTS EMBODIED IN RESTRUCTURING SUPPORT AGREEMENT AND TOLLING CERTAIN LIMITATIONS PERIODS, FILED MAY 10, 2019 [ECF NO.1235]

Pursuant to 28 U.S.C. § 1746, I, Frederic Chapados, hereby declare as follows under penalty of perjury under the laws of the United States of America:

1. I am a Director of Citigroup Global Markets Inc. (“Citi”). Citi has been engaged by the Financial Oversight and Management Board (“Oversight Board”) to advise on a potential transaction involving the transmission and distribution business of the Puerto Rico Electric Power Authority (“PREPA”). As described more fully below, I have been directly involved in that process as the person at Citi directly responsible for this potential transaction (the “Transformation”).

2. I submit this declaration in support of the *Joint Motion of Puerto Rico Electric Power Authority And AAFAF Pursuant to Bankruptcy Code Sections 362, 502, 922, And 928, And Bankruptcy Rules 3012(A)(I) And 9019 For Order Approving Settlements Embodied in Restructuring Support Agreement and Tolling Certain Limitations Periods, Filed May 10, 2019* (the “9019 Motion”). [ECF No.1235]

3. Except as otherwise indicated, I submit this declaration based on my personal knowledge.

4. I have worked at Citi for 12 years in the investment banking division and have spent the last 10 years working with and advising Power and Utilities clients, primarily in North America. I have advised on various mergers and acquisitions related work across the Power and

Utilities sectors, including for regulated transmission and distribution utilities. I have also worked on debt and equity financing transactions for a variety of clients.

5. Citi is a leading investment banking firm with respect to the Power and Utilities sectors. We provide advisory services for a variety of clients, including regulated utilities, merchant generators, renewable developers, pension funds, and financial sponsors, among others. Our services include advising on mergers and acquisitions, strategic alternatives, and capital raising alternatives spanning debt, equity, and structured finance. As an advisor to the Oversight Board, Citi is charged with rendering certain strategic advisory and investment banking services related to PREPA. These services include identifying, evaluating and/or implementing various strategic or financial alternatives for the Oversight Board, including advice on the structure, negotiation strategy, valuation analyses, and other financial matters. With respect to Transformation, these services include providing advice on the structure and terms of a long-term operating agreement involving PREPA's power transmission and distribution assets, and providing advice in connection with that aspect of Transformation that includes a potential "privatization" involving the Company's power generation assets.

6. My responsibilities with respect to Transformation include leading the day-to-day transaction execution, including serving as a primary point of contact for the Oversight Board, the Government, and potential Operators.

I. TRANSFORMATION OF PREPA

7. On January 22, 2018, the Governor of Puerto Rico, Ricardo Rosselló, announced the Government's intent to engage in Transformation by modernizing PREPA through private ownership or operation of the power utility by a private party (an "Operator"). I understand the Oversight Board is fully supportive of this initiative, and the Puerto Rico Fiscal Agency and

Financial Advisory Authority ("AAFAF," and together with PREPA and the Oversight Board, the "Government Parties") and the Oversight Board are working cooperatively towards this goal.

8. I understand that the Government Parties' key objectives in pursuing Transformation and selecting an Operator include, without limitation, delivering low-cost electricity to ratepayers of Puerto Rico, increasing energy resiliency and system reliability, deploying new technologies and more cost-efficient fuel sources, enabling capital investment, ensuring the utility's financial strength, and implementing industry best-practices.

9. I understand the process for selecting an Operator is proceeding under the direction of the Puerto Rico Public-Private Partnerships Authority (the "P3 Authority"). At the direction of the Oversight Board, and in consultation with AAFAF, Citi is working with the P3 Authority and its advisors on Transformation, as described above.

10. Transformation contemplates that PREPA will enter into a long-term contract with an Operator, who will:

> [M]anage and operate the [transmission and distribution system ("T&D")] and assist with the procurement associated with, and the management and deployment of, federal funds received for the restoration of the T&D system.[2]

11. The Transformation process is unfolding in four phases: (a) Market Sounding; (b) RFQ; (c) Request for Proposals ("RFP"); and (d) Closing Period.

12. The Market Sounding and RFQ steps have been completed. The RFP has been issued to qualified potential Operators from the RFQ stage, and due diligence is currently ongoing.

13. It is anticipated that potential Operators will submit proposals to the P3 Authority in Q4 2019. The proposals will then be evaluated by the relevant approving parties and their

[2] *Request for Qualifications, Puerto Rico Electric Power Transmission and Distribution System*, Oct. 31, 2018, at 13 ("RFQ") (annexed as Exhibit. A).

respective advisors. We anticipate the RFP process will culminate with the selection of the winning Operator by the end of 2019.

14. At this time, Citi anticipates the definitive documentation concerning the Transformation Operator can be finalized and executed, such that the Transformation can be included in a Title III Plan of Adjustment with implementation beginning by June 30, 2020.

II. ESTABLISHING A LEGAL AND ECONOMIC ENVIRONMENT TO FACILITATE TRANSFORMATION

15. In reaching out to the marketplace to identify a potential Operator capable of fulling the goals of PREPA's Transformation, we have looked for organizations that combine extensive experience in operating major electrical utility systems, with substantial financial resources.

16. The RFQ described the "profound fiscal crisis" facing Puerto Rico and PREPA. The RFQ further emphasized the devastating impact of Hurricanes Irma and Maria on Puerto Rico and its electric utility, including the prospect of emergency federal aid. The RFQ called for solutions that:

a. Are cost-effective and forward-looking;

b. Are resilient and built in accordance with consensus-based codes, specifications and standards;

c. Harness innovative thinking and best practices from around the world; and

d. Would contribute to greater economic development, revitalization and growth of Puerto Rico (in alignment with broader Government efforts to achieve fiscal and economic stability.[3]

17. Based upon my experience, any potential Operator performing the risk-benefit analysis to determine whether to undertake this project would look for a clear picture of the legal,

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[3] RFQ at 11.

financial, operational and regulatory environments in which it would be operating should its proposal be successful. In particular, a potential Operator would want to understand the legal and financial challenges facing PREPA, including, but not limited to, an understanding regarding the projected costs that will need to be included in PREPA's rates to customers post-closing, including any additional charges to satisfy restructured legacy debt and, ultimately, PREPA's prospects and timing for exiting Title III.

18. I understand the Restructuring Support Agreement ("RSA") regarding PREPA's legacy debt will help facilitate the confirmation of a Title III Plan of Adjustment for PREPA. Therefore, it is my belief that the RSA will help clear the way for Transformation.

Resolution of Legacy Bond Debt

19. The P3 Authority's October 2018 RFQ anticipated that potential investors would be concerned regarding legacy debt:

> In addition, confirmation of a Plan of Adjustment in PREPA's Title III case may be required to release liens against PREPA's assets and help ensure that the Project is free and clear of all legacy liabilities.[4]

20. In particular, when preparing their proposals, I anticipate potential Operators will want to understand the extent to which PREPA and its ratepayers will be responsible for payment of PREPA's pre-petition debt obligations and the role of the Operator, if any, with respect to servicing restructured debt obligations.

21. I am advised the RSA would be a significant step towards the resolution of uncertainty regarding PREPA's pre-petition debt obligations. It is also my understanding the RSA contemplates a confirmation order to provide the Operator protection against legacy liabilities of PREPA, in which case approval of the RSA will help resolve uncertainty and therefore further the

[4] RFQ at 11.

Transformation. In that regard, I note that the RFQ anticipated that the transaction would be considered by the Court:

> Similar to Chapter 9 of the U.S. Bankruptcy Code, PROMESA does not include an express provision requiring post-petition contracts to be approved by the Title III Court. The [Operator], however, may wish to seek Title III Court authorization to ensure that the [Operator] receives its bargained-for consideration, and we anticipate that the Title III Court will issue one or more such orders to support the transaction.[5]

I believe the RSA will facilitate a clearer understanding of future financial obligations and responsibilities of PREPA, which will be important to a potential Operator.

22. Finally, in this context, I understand that under the RSA, supporting bondholders have agreed to accept new bonds under a future plan of adjustment that will replace pre-petition obligations and will be serviced from a transition charge based on kilowatt-hour usage that will be added to customer invoices.

23. In finalizing their proposals, potential Operators will want to understand the electricity rates they would need to charge customers to satisfy operating costs, Operator compensation, and other financial obligations of the system, including the new bonds under a Plan of Adjustment. The RSA advances this goal because, as I am advised, the RSA will establish the rate component that will provide an acceptable recovery to supporting bondholders.

Resolution of the Receivership Litigation

24. I also understand that the monoline insurers filed a motion to lift the automatic stay so they could seek a court appointed receiver over PREPA's operations (the "Receivership Motion"). This pending litigation introduces uncertainty and potential disruption into the Transformation process.

[5] *Id.*

25. I am advised that if the RSA is approved, that would likely result in withdrawal or dismissal of the Receivership Motion and resolve other potential disputes with PREPA's bondholders. I believe this resolution would be an additional benefit to the Transformation process, by eliminating the uncertainty inherent in litigation, and with the appointment of a receiver in particular.

PREPA's Emergence from Title III

26. It is my understanding the RSA is an important step in facilitating PREPA's exit from Title III. In my view, PREPA's emergence from Title III would be important to any potential Operators.

27. In sum, the RSA eliminates uncertainty regarding PREPA's legacy debt liabilities and future financial challenges, which will be important to potential Operators in formulating their responses to the RFP. And, in in my view, resolving the Receivership Motion, will eliminate the uncertainties inherent in litigation and receivership, which will also be beneficial to the Transformation. Finally, to the extent the RSA will lead towards confirmation of a Plan of Adjustment and emergence from Title III, which will be an important step leading to Transformation.

Executed on July 2, 2019 in New York, NY

/s/ Frederic Chapados
Frederic Chapados

EXHIBIT A

GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority

REQUEST FOR QUALIFICATIONS

Puerto Rico Electric Power Transmission and Distribution System

RFQ 2018-2

Issued by the Puerto Rico Public-Private Partnerships Authority

Date Issued: October 31, 2018

Responses Due Date: December 5, 2018 at 5:00 PM AST

Case:17-04780-LTS Doc#:1427 Filed:07/02/19 Entered:07/02/19 23:23:28 Desc: Main Document Page 11 of 47

GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority

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Contents

This Request for Qualifications (as defined below) is prepared for informational purposes only and does not purport to be all-inclusive or to contain all the information that a Respondent (as defined below) may desire in investigating the potential transaction. No express or implied warranty is given by the Puerto Rico Public-Private Partnerships Authority or any other agency or instrumentality of the Government of Puerto Rico as to the accuracy or completeness of the information contained herein or otherwise made available in connection with the Project (as defined below).

1. Overview of RFQ and PPP Process

1.1 Introduction

The Puerto Rico Public-Private Partnerships Authority (the “**Authority**”), in collaboration with the Puerto Rico Electric Power Authority (“**PREPA**”), hereby requests Statements of Qualifications (“**SOQs**”) from companies and consortia interested in managing and operating Puerto Rico’s electric power transmission and distribution (“**T&D**”) system, including the administration of federal disaster recovery funding, pursuant to a long-term contract (the “**Project**”).

The Authority and PREPA wish to enter into a public-private partnership (“**PPP**”) with a private sector company or consortium (“**Private Partner**”) in order to achieve the following objectives for the T&D system:

- deliver low-cost electricity to ratepayers of Puerto Rico;
- increase T&D system resiliency, achieving performance in line with mainland U.S. utility median performance, measured via industry-standard “SAIFI” (average number of outages per customer per year) and “SAIDI” (average length of outage per customer per year) metrics;
- increase T&D system reliability;
- deploy new technologies; and
- exercise industry best-practices and operational excellence.

Any natural or legal person, joint venture, partnership or other entity, or consortium thereof, that submits an SOQ in response to this Request for Qualifications (“**RFQ**”) (each, a “**Respondent**”) is encouraged to review the following documents, which are available for download on the Authority’s website at http://www.p3.pr.gov, for further background on the Project and the legal framework within which it will be executed:

- PREPA Organic Act, Act No. 83-1941, as amended;
- Public-Private Partnership Authority Act, Act No. 29-2009, as amended (the “**PPP Act**”);
- Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnerships Contracts under Act No. 29-2009, as amended (the “**PPP Regulation**”);
- Puerto Rico Energy Transformation and RELIEF Act, Act No. 57-2014, as amended;
- PREPA Revitalization Act, Act No. 4-2016, as amended; and
- Puerto Rico Electric System Transformation Act, Act No. 120-2018, as amended (“**Act 120**”).

In addition, the PREPA Fiscal Plan, certified on August 1, 2018 by the Financial Oversight and Management Board for Puerto Rico (“**FOMB**”), is available at http://www.oversightboard.pr.gov/documents. The Financial Information and Operating Data Report for Puerto Rico, dated December 18, 2016, and the New Fiscal Plan for Puerto Rico, certified on October 23, 2018 by the FOMB (the “**Government Fiscal Plan**”), are available at http://www.aafaf.pr.gov.

1.2 Background of Puerto Rico's PPP Program

The PPP Act provides that the public policy of the Government of Puerto Rico (the "**Government**") is to favor and promote the establishment of PPPs for the development of certain Priority Projects (as defined in the PPP Act) to, among other things:

- further the development and maintenance of infrastructure facilities;
- share with the private sector the risks involved in the development, operation and/or maintenance of such projects;
- improve the services rendered and the functions of the Government; and
- encourage job creation and promote Puerto Rico's socioeconomic development and competitiveness.

The PPP Act provides that the public policy with respect to PPPs must be to maintain such controls as are necessary to protect the public interest yet balance this need for controls with the profit-making purpose of any private operation. The contractual relationship must thus be mutually beneficial, while ensuring the efficient, effective and affordable provision of public goods and services to all citizens.

The Authority was created pursuant to the PPP Act as a public corporation of the Government affiliated with the Puerto Rico Fiscal Agency and Financial Advisory Authority (known by the Spanish acronym "**AAFAF**"). The Authority is designated as the sole government entity authorized and responsible for implementing the Government's public policy on PPPs and for determining the functions, services or facilities for which PPPs are to be established.

The PPP Act and the Authority's procurement process is well organized, transparent and clear. Evidence of the robustness of the framework can be seen in the successful, long-term concession of toll roads PR-22 and PR-5 (2011) and the long-term lease agreement for the Luis Muñoz Marin International Airport (2013).

For each proposed PPP project, the Authority must establish a committee (the "**PPP Committee**"), as provided in the PPP Act, responsible for, among other things: (1) the qualification, evaluation and selection processes of the proposed PPP; (2) establishing the terms and conditions of the long-term agreement awarded to the Private Partner as a result of the process described in this RFQ (the "**RFQ Process**") and the competitive procurement process that follows the RFQ Process (the "**RFP Process**") and executed by the Private Partner and PREPA to establish a PPP (the "**PPP Contract**"); and (3) reporting on the procedures followed, among others.

Respondents should note that the PPP Committee has been vested with the authority to negotiate the terms of the PPP Contract. PREPA has been vested with the authority to execute the PPP Contract negotiated by the PPP Committee with a Private Partner, subject to the approval of (i) the Puerto Rico Energy Bureau created by Act 57-2014, as amended, to regulate, monitor and enforce the energy public policy of the Government (the "Energy Bureau"), (ii) the board of directors of each of the Authority and PREPA, (iii) the Governor of Puerto Rico or his delegate and (iv) the FOMB.

1.3 Background on Transformation of the Electric System

On January 22, 2018, Governor Ricardo A. Rosselló announced the Government's intent to transform and modernize the electric system through private ownership, management or operation of PREPA's assets. PREPA had suffered years of underinvestment and substandard management, resulting in significant operational and financial challenges that were exacerbated by Hurricane Irma and Hurricane Maria in September 2017.

On June 20, 2018, Governor Rosselló signed Act 120 into law, with the stated goal of transforming Puerto Rico's energy system into a modern, sustainable, reliable, efficient, cost-effective and resilient system. Act 120 provides the legal framework through which the Authority will determine the PREPA services and facilities that will be subject to PPPs and the PREPA generation assets that may be sold, transferred or assigned to PPPs.

This RFQ is a part of the Government's mission to transform Puerto Rico's electric system. The Authority, together with PREPA and other stakeholders, is developing a process for the transformation of PREPA's generation assets that is expected to be announced in the coming months.

1.4 Function of this RFQ

The Authority is issuing this RFQ pursuant to Section 5 of Act 120 and Section 3 of the PPP Act. This RFQ may be amended at any time through the publication of addenda which will be posted on the Authority's website: http://www.p3.pr.gov. Interested parties will be responsible for periodically checking the Authority's website for announcements and publication of relevant information concerning this process, including any addenda.

Prospective Respondents should carefully review Act 120, the PPP Act and the PPP Regulation (each of which is available for download on the Authority's website: http://www.p3.pr.gov) and should ensure that, in addition to the terms and conditions of this RFQ, they comply with all applicable provisions set out therein.

The intent of this RFQ is to provide each interested prospective Respondent with sufficient information to enable it to prepare and submit an SOQ for consideration and evaluation by the Authority. This RFQ contains instructions to Respondents and a Form of Respondent Certification, which must be completed in its entirety and submitted to the Authority for the Respondent to be considered for qualification. The completed Form of Respondent Certification, together with all required attachments, will constitute the Respondent's SOQ. The Form of Respondent Certification is attached in **Appendix A**.

This RFQ is being issued to identify those Respondents that meet the minimum requirements necessary to carry out the Project in compliance with Act 120 and the PPP Act, in particular those Respondents that demonstrate:

- experience operating a large electric utility;
- financial strength and capital resources, with significant access to the capital markets; and
- strong technical expertise, with a track record of high-quality operations.

The objective of this RFQ is to enable the PPP Committee to identify Respondents that, based on their SOQ pursuant to this RFQ, are deemed qualified by the PPP Committee to participate in the RFP Process ("**Qualified Respondents**").

In evaluating Respondents, the PPP Committee may disqualify a Respondent for any of the reasons stated in Sections 8.1 (Disqualifying Events) and 8.2 (Other Grounds for Disqualification) of the PPP Regulation, or if the Respondent:

- is ineligible to submit a proposal on one or more grounds specified in Act 120, the PPP Act or the PPP Regulation;
- fails to satisfy the standards established by the PPP Committee with respect to the Respondent's required financial condition, or technical or professional ability and experience (as set forth in Section 4 of this RFQ); or
- fails to comply with the requirements of Sections 9(a) (Applicable Requirements and Conditions for those who wish to be considered as Proponents) and/or 9(d) (Consortia) of the PPP Act, as applicable.

Pursuant to Section 5.4 (Qualification of Proponents (RFQ)) of the PPP Regulation, the PPP Committee reserves the right to limit in its absolute discretion the number of Respondents it considers to be qualified in order to arrive at a shortlist of Qualified Respondents that allows for an orderly procurement.

The Authority reserves the right to terminate the procurement process in whole or in part at any time, for any reason or for no reason, prior to the execution by PREPA of a PPP Contract, without incurring any cost, obligations or liabilities whatsoever. Respondents will not be entitled to an indemnity (including but not limited to

GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority

reimbursement for costs and expenses) from the Authority or PREPA if the Authority decides, in its sole and absolute discretion, to terminate the procurement process related to the Project.

1.5 Definitions

For the purposes of this RFQ, the following defined terms will have the meanings used in the sections indicated below.

Term	Section
AAFAF	1.2
Act 120	1.1
Authority	1.1
Claim	4.11
Conflict of Interest	4.7
Control	1.7
Covered Party	3
Energy Bureau	1.2
Ethics Guidelines	1.8
Evaluation Criteria	3
FEMA	2.1.3
FOMB	1.1
Government	1.2
Government Fiscal Plan	1.1
Key Individuals	3
PPP	1.1
PPP Act	1.1
PPP Committee	1.2
PPP Contract	1.2
PPP Regulation	1.1
PREPA	1.1

Term	Section
President	2.1.3
Private Partner	1.1
Project	1.1
PROMESA	2.1.2
Proposed Electric Sector Regulatory Framework	2.2.3
Qualified Respondents	1.4
Related	1.7
Respondent	1.1
Respondent Representative	4.2
Restricted Parties	1.8
RFC	1.6
RFC Deadline	1.9
RFP	1.6
RFP Process	1.2
RFQ	1.1
RFQ Process	1.2
SOQs	1.1
Submission Deadline	1.6
T&D	1.1
Title III Court	2.1.2
Team Member	1.7

1.6 Process and Schedule

Persons receiving this RFQ that intend to submit an SOQ should so indicate by providing their contact information to the PPP Committee via e-mail at P3TDProject@p3.pr.gov.

The procurement process for the Project is expected to take place in the following stages:

Stage 1 —— RFQ Process (Qualification Stage)

The RFQ Process is intended to identify the Qualified Respondents that are eligible to receive the Request for Proposals ("**RFP**") issued by the Authority and to obtain proposals for the Project.

During this stage Respondents submit their SOQ pursuant to this RFQ.

The RFQ Process is standalone and independent and will be completed once the Qualified Respondents are identified by the Authority and all Respondents have received final notification from the Authority as to the results of the RFQ Process.

Stage 2 — RFP Process (Binding Bid Stage)

The RFP Process is the competitive procurement process that follows the RFQ Process. The RFP Process is intended for Qualified Respondents only and is expected to result in the selection of a Private Partner.

Qualified Respondents that elect to participate in the RFP Process and sign a confidentiality and process agreement (a form of which will be provided to each Qualified Respondent) will have the opportunity to conduct a thorough due diligence of PREPA, including:

- receipt of the RFP for the Project;
- a confidential information memorandum and financial model;
- access to an electronic data room that contains detailed information about the Project;
- site visits;
- management presentations and meetings with PREPA subject matter experts;
- diligence Q&A process with PREPA subject matter experts; and
- receipt of a draft form of PPP Contract, which will include a detailed description of the Project and address all of the rights and obligations of the parties under the PPP Contract.

A more detailed description of the RFP Process, together with a more detailed timetable, will be provided in the RFP.

Stage 3 — Implementation of the PPP Contract

Once the Private Partner and PREPA have executed the PPP Contract, the Project will proceed in accordance with the terms and conditions of the PPP Contract.

Below is a summary schedule of the major activities associated with the procurement process for the Project. The dates and activities are subject to change and may be revised through the issuance of addenda to this RFQ.

October 31, 2018	-	Date of issuance and first publication of public notice of RFQ by the Authority.
November 14, 2018	-	Deadline for submission of Requests for Clarification with respect to this RFQ by prospective Respondents (“**RFC**”).
November 20, 2018	-	Deadline for the Authority to release responses to RFCs.
December 5, 2018	-	Deadline for submission of SOQs (no later than 5:00 pm AST).
January 16, 2019	-	Estimated date for notification of Qualified Respondents.

All SOQs must be submitted by no later than December 5, 2018 at 5:00 pm AST (the “Submission Deadline”) in the manner set forth in Section 4 of this RFQ.

As described in more detail in Section 4 of this RFQ, the Authority will only accept SOQs delivered by hand. The Authority will not accept SOQs sent by facsimile, electronic mail, telex or other electronic means. The determination of whether an SOQ is submitted before the Submission Deadline will be based on the date and time stamp that each Respondent must ensure it receives from the Authority. It is the sole responsibility of each Respondent to ensure that its SOQ is delivered no later than the Submission Deadline.

By submitting an SOQ, the Respondent specifically authorizes the Authority, PREPA, the PPP Committee and their respective officers, employees, advisors, counsel, accountants and other consultants and representatives to make any inquiry or investigation to verify the statements, documents and information submitted in connection with such SOQ, and to seek clarification from the Respondent's directors, officers, employees, advisors, counsel, accountants and other consultants and representatives related thereto.

1.7 Consortia

To the extent that any Respondent has formed or proposes to form a consortium to participate in the RFP for this Project, such Respondent should include in its SOQ the identity, role and capabilities of each consortium member and each individual person, partnership, company or legal entity that is formally or informally reviewing the Project and intends to participate as a potential equity investor in the Private Partner that will execute the PPP Contract for this Project ("**Team Member**"). Team Members will include, without limitation, the ultimate owner or holding company of any such investor or, in the case of a managed fund or pension plan, the manager of the fund or pension plan. Each Team Member and its role must be identified in a Respondent's SOQ and cannot be changed without the prior written consent of the PPP Committee.

Except as specifically provided to the contrary in this RFQ, no Team Member may join or participate, directly or indirectly, as a Team Member with more than one Respondent for this Project. Each person or legal entity that participates as a Team Member is responsible for ensuring that no other person or legal entity that is Related (as defined below) to it joins or participates, directly or indirectly, as a Team Member in any other Respondent. Unless otherwise provided herein, any violation of this provision by a Respondent will disqualify such Respondent and each of its Team Members.

A person or company is "**Related**" to another person or legal entity if:

- one may exercise Control (as defined below) over the other; or
- each is under the direct or indirect Control (as defined below) of the same ultimate person or legal entity.

For purposes of this RFQ, a person or legal entity exercises "**Control**" of another if (a) it is the owner of any legal, beneficial or equitable interest in 50% or more of the voting securities in a corporation, partnership, joint venture, other person or entity or (b) if it has the capacity to (i) control the composition of the majority of the board of directors of any such person or entity, (ii) control the decisions made by or on behalf of any such person or entity or (iii) otherwise direct or cause the direction of the management, actions or policies of any such person or entity (whether formally or informally); and the terms "**Controlling**" and "**Controlled**" have corresponding meanings.

Each of the Team Members will ensure compliance with all licensing and other requirements under applicable laws with respect to the services to be provided by such Team Member.

Subject to the requirements and entitlements of the Authority set forth below, submission of an SOQ will not limit a Respondent's ability to add to, substitute or subtract from its Team Members during the procurement process.

The Authority intends to issue the RFP only to Qualified Respondents. If for any reason, after the Submission Deadline and prior to the issuance of the RFP, a Respondent wishes or requires to: (i) change any Team Members listed in the Respondent's SOQ (either by adding new members, removing listed members or substituting new members for listed members), (ii) materially change the ownership or Control of a Respondent or a Team Member or (iii) change the legal relationship between the Respondent and/or its Team Members, such as the creation of a new joint venture, partnership or legal entity that will take the place of the Respondent, then, in each case, the Respondent must submit a written application (with such information as the PPP Committee may require) to the PPP Committee seeking its consent to the proposed change, which consent may be withheld, delayed or conditioned in the sole and absolute discretion of the PPP Committee.

Without limiting the foregoing, the PPP Committee may refuse to consent to a change to a Respondent or its Team Members and/or may disqualify the Respondent from further participation in the procurement process if, in its sole and absolute discretion, (a) the change would result in (i) a less desirable Respondent or less desirable Team Members than that originally proposed in the Respondent's SOQ or (ii) the Respondent or its Team Members being materially different from the Respondent that submitted the SOQ, (b) evaluating the application for a change would delay the qualification process or (c) the PPP Committee deems the change detrimental to the process, the Project, PREPA or the Authority.

1.8 Restricted Parties

The following entities will be deemed "**Restricted Parties**" and neither they nor their respective directors, officers, partners, employees and persons or legal entities Related to them are eligible to participate as Team Members or to otherwise assist any Respondent or Team Member, directly or indirectly, or participate in any way as a director, officer, employee, advisor, counsel, accountant or other consultant or otherwise in connection with any Respondent. Each Respondent will ensure that each Team Member does not use, consult, include or seek advice from any Restricted Party. The following Restricted Parties have been identified:

- Ankura Consulting Group, LLC
- Citigroup Global Markets Inc.
- CPM P.R. LLC
- Baker, Donelson, Bearman, Caldwell & Berkowitz, PC
- Cleary Gottlieb Steen & Hamilton LLP
- Filsinger Energy Partners
- Greenberg Traurig LLP
- ICF International, Inc.
- Rothschild Inc.
- Navigant Consulting, Inc.
- Nossaman LLP
- Norton Rose Fulbright US LLP
- McKinsey & Company, Inc.
- O'Melveny & Myers LLP
- O'Neill & Borges LLC
- Pietrantoni Menendez & Alvarez LLC
- Proskauer Rose LLP
- Rooney Rippie & Ratnaswamy LLP

At all times during the procurement process, Respondents must comply, and must ensure that all persons engaged to provide any type of assistance in connection with the Project are in compliance, with the Authority's Guidelines for the Evaluation of Conflicts of Interest and Unfair Advantages in the Procurement of Public-Private

Partnership Contracts (the "**Ethics Guidelines**"), which are available for download on the Authority's website: http://www.p3.pr.gov.

Respondents should be aware that the list of Restricted Parties is not exhaustive and that a person that is not included as a Restricted Party may still be prohibited from participating in the Project pursuant to the provisions of the Ethics Guidelines.

Finally, except as to any Restricted Party, the fact that a person provides or has provided services to the Authority, PREPA or AAFAF in matters not related to the Project may not automatically prohibit such person from participating in the Project. To the extent any question exists as to whether such a person is a Restricted Party, the Respondent should consult with the Authority.

1.9 Clarifications and Communications Protocol

Note that a Respondent may submit an RFC to the Authority for explanation or interpretation of any matter contained in this RFQ ***no later than 5:00 p.m. AST on November 14, 2018 (the "RFC Deadline")***. If the Authority provides any clarification as a result of an RFC, it will provide such clarification by means of a written explanation published on the Authority's website ***no later than November 20, 2018***.

Respondents should note the following regarding any RFC:

- any RFC from a Respondent must be made in writing to the email address of the PPP Committee at P3TDProject@p3.pr.gov no later than the RFC Deadline;
- the Authority will not respond to Respondents' questions or RFCs that are not submitted in accordance with this Section 1.9; and
- any Respondent that has questions as to the meaning of any part of this RFQ or the Project, or who believes that the RFQ contains any error, inconsistency or omission, must submit its concern, in writing, to the PPP Committee in accordance with this Section 1.9.

The Authority may, in its sole and absolute discretion, provide all submitted questions or RFCs, along with the Authority's answers thereto, without expressly identifying the originator. Any response provided by the Authority other than by way of an addendum issued in accordance with this RFQ will not be binding on the Authority or PREPA, nor will it change, modify, amend or waive the requirements of this RFQ in any way. Respondents may not rely on any response or information provided otherwise.

Respondents may also make inquiries regarding matters they consider to be commercially sensitive or confidential. Respondents must designate such inquiries as "commercially confidential". If the Authority determines, in its sole and absolute discretion, that an inquiry designated as commercially confidential is of general application or would provide a significant clarification to this RFQ or any process or other matter outlined hereunder, the Authority may issue a clarification to all Respondents via addenda posted to the Authority's website to address such matter. If the Authority agrees with the Respondent's designation of an inquiry as commercially confidential, the Authority will provide a response only to the Respondent that submitted the commercially confidential inquiry.

Additional information regarding RFCs and other communications are set forth in Section 4 of this RFQ.

1.10 No Collusion or Lobbying

The Authority and PREPA are committed to a fair, open and transparent selection process.

No Collusion

Respondents and Team Members will not discuss or communicate, directly or indirectly, with any other Respondent(s) or any director, officer, employee, consultant, advisor, counsel, accountant, other consultant or representative or Team Member of any other Respondent regarding the preparation, content or representation of their SOQs. SOQs will be submitted without any connection (*i.e.*, arising through an equity interest (other than an equity interest that does not represent a Controlling interest in an entity, as determined by the Authority from time to time) in or of a Respondent or Team Member), knowledge, comparison of information or arrangement, with any other prospective Respondent or any director, officer, employee, advisor, counsel, accountant or other consultant or representative or Team Member of any other prospective Respondent.

By submitting an SOQ, a Respondent, on its own behalf and as authorized agent of each firm, corporation or individual Team Member of the Respondent, represents and confirms to the Authority, with the knowledge and intention that the Authority may rely on such representation and confirmation, that its SOQ has been prepared without collusion with other Respondents, fraud or unfair advantages. The Authority reserves the right to disqualify any Respondent that does not comply with this provision.

No Lobbying

Respondents, their Team Members and their respective directors, officers, employees, advisors, counsel, accountants and other consultants and representatives will not, except as expressly contemplated by this RFQ or as expressly directed or permitted by the Authority, attempt to communicate directly or indirectly with any representative of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or the federal government (other than via an RFC or other official communication following the communications protocol indicated in Section 1 of this RFQ) in relation to the Project or the RFQ Process, at any stage of this RFQ Process, including during the evaluation process. The Authority reserves the right to disqualify a Respondent that does not comply with this provision.

Respondents, their Team Members and their respective directors, officers, employees, advisors, counsel, accountants and other consultants and representatives must certify that they have complied with the requirements of Section 5.16 of the PPP Regulation by completing the Form of Respondent Certification included as Appendix A to this RFQ.

GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority

2. Project Description

2.1 Puerto Rico

2.1.1 Overview

Puerto Rico is a self-governing territory of the United States and is located in the Caribbean approximately 1,030 miles southeast of Miami, FL. Puerto Rico has an area of approximately 3,500 square miles and a population estimated at 3.34 million by the United States Census Bureau as of July 1, 2017.

Historically, Puerto Rico has had one of the largest and most dynamic economies in the Caribbean region. As a territory of the U.S. since 1898, Puerto Rico offers a stable legal and regulatory framework where major U.S. and foreign multi-national corporations have operated. Puerto Rico has a well-educated and bilingual workforce, and has been a global center for manufacturing, including in the pharmaceutical, biotechnology, medical devices, agriculture, rum, aerospace and electronics industries, which was complemented by strong consumer, retail and service sectors.

Generally, U.S. federal laws apply in Puerto Rico, and Puerto Rico is subject to the jurisdiction of the U.S. regulatory authorities, including the U.S. Environmental Protection Agency (EPA). Because it is a U.S. territory, the U.S. Federal Deposit Insurance Corporation (FDIC) insures banks operating in Puerto Rico, which are subject to the same federal controls applied to banks operating in the U.S. mainland. The U.S. Securities and Exchange Commission (SEC) regulates all publicly traded securities and commodities.

Key Puerto Rico Facts	
Population	3.34 million
Land Area	8,959 sq. km (approx. 3,500 sq. mi)
Currency	U.S. Dollar
Languages	English, Spanish
GDP Per Capita	$19,140

* Data according to U.S. Census 2017 and the Puerto Rico Planning Board.

2.1.2 Financial Condition and Title III Process

The Government and most of its public corporations are in the midst of a profound fiscal crisis. In June 2015, the Government created a working group tasked with analyzing the fiscal and economic situation of Puerto Rico. After a series of studies and analyses, this working group estimated Puerto Rico's consolidated budget and financing gap (including required pension payments and debt service on tax-supported debt) to be approximately $59 billion between fiscal years 2017 and 2026. More recent studies show the projected five-year deficit (through fiscal year 2023) at $34.7 billion.

The Government's balance sheet deterioration, coupled with continued structural budget imbalances between revenues and expenditures, and a lack of continuity and execution capacity in fiscal and economic plans led to the loss of capital markets access in 2015. This limited the Government's ability to make necessary infrastructure investments and to meet scheduled debt service payments.

Recognizing the delicate fiscal condition of Puerto Rico, the U.S. Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act ("**PROMESA**"), which was signed into law on June 30, 2016. PROMESA provides a series of mechanisms to achieve fiscal and budgetary balance and restore access to the capital markets to spur revitalization of infrastructure in Puerto Rico. PROMESA also established the FOMB, which is tasked with working with the people of Puerto Rico and the Government to create the necessary

foundation for economic growth. The Government Fiscal Plan estimates the Government's consolidated outstanding debt and pension liabilities to be over $120 billion, with more than $70 billion in financial debt and more than $50 billion in pension liabilities.

In July 2017, a voluntary petition for bankruptcy relief was filed on behalf of PREPA, commencing a case under Title III of PROMESA in the U.S. District Court for the District of Puerto Rico (the "**Title III Court**"). Upon the commencement of PREPA's Title III case, an automatic stay on litigation related to the financial indebtedness and other obligations of PREPA immediately went into effect.

The PPP Contract will need to comply with certain federal and local requirements and regulations, including PROMESA, which will be set forth in more detail in the RFP. The PPP Contract will also require the approval of the FOMB pursuant to the FOMB's Contract Review Policy effective as of November 6, 2017, in addition to the approval of others as described in Section 1.2 of this RFQ. The FOMB and its advisors are working closely with the Authority and PREPA throughout this process and are expected to be active participants in the process at all stages.

Similar to Chapter 9 of the U.S. Bankruptcy Code, PROMESA does not include an express provision requiring post-petition contracts to be approved by the Title III Court. The Private Partner, however, may wish to seek Title III Court authorization to ensure that the Private Partner receives its bargained-for consideration, and we anticipate that the Title III Court will issue one or more such orders to support the transaction. In addition, confirmation of a Plan of Adjustment in PREPA's Title III case may be required to release liens against PREPA's assets and help ensure that the Project is free and clear of all legacy liabilities.

2.1.3 Hurricanes and Recovery Efforts

In September 2017, Hurricanes Irma and Maria delivered devastating blows to Puerto Rico, resulting in the largest and most complex disaster response and recovery effort in recent U.S. history. Irma skirted the northern coast of Puerto Rico on September 6 and 7, 2017, as a Category 5 storm, causing significant flooding, regional power and water outages and other damage to Puerto Rico's infrastructure. On September 20, 2017, less than two weeks after Irma and before Irma's response operations had concluded, Maria made a direct strike over Puerto Rico as a Category 4 storm, causing widespread and unprecedented devastation and destruction. Maria resulted in loss of life and massive infrastructure and property damage, and severely affected Puerto Rico's population, economy, critical infrastructure, social service network, healthcare system and the Government.

On September 5 and 17, 2017, Governor Rosselló requested separate federal declarations of emergency and disaster for Puerto Rico in light of the effects of Hurricanes Irma and Maria. These requests were subsequently approved by the President of the United States (the "**President**"), paving the way for federal disaster assistance funding. On October 26, 2017, the President signed the Additional Supplemental Appropriations for Disaster Relief Requirements Act 2017, which provides $36.5 billion in FY2018 emergency supplemental appropriations to the Federal Emergency Management Agency ("**FEMA**"), the Department of Agriculture and the Department of the Interior, a portion of which has been appropriated for Puerto Rico's energy system in connection with Irma and Maria disaster recovery efforts.

As Puerto Rico looks to the future, it sees the recovery effort as an opportunity not just to rebuild what was damaged, but also to transform Puerto Rico's energy system by implementing solutions that:

- are cost-effective and forward-looking;
- are resilient and built in accordance with consensus-based codes, specifications and standards;
- harness innovative thinking and best practices from around the world; and
- contribute to greater economic development, revitalization and growth of Puerto Rico (in alignment with broader Government efforts to achieve fiscal and economic stability).

Puerto Rico will move forward in its economic and disaster recovery by investing in infrastructure, people and the environment. Federal funds from FEMA and other government entities will help in achieving this vision. In order to fully deliver on all of the economic, infrastructure and societal goals identified by the Government, private sector creativity and resources will need to be harnessed.

2.2 Electric Power T&D System

2.2.1 PREPA Overview

PREPA is a public corporation and instrumentality of the Government, created pursuant to Act No. 83-1941 of May 2, 1941, as amended. Its purpose is to provide electric power in a reliable manner, contribute to the general welfare and the sustainable development of Puerto Rico and maximize the benefits while minimizing the social, environmental and economic impacts of electric energy generation and distribution. PREPA's current objectives include reducing energy costs, promoting smart energy consumption and protecting the environment.

Strategies to achieve these objectives include:

- reducing operating expenses;
- increasing efficiency;
- minimizing energy theft;
- diversifying energy sources;
- establishing smart grid technologies for energy control and consumption monitoring; and
- maximizing the use of advanced technology.

PREPA has faced significant challenges in recent years including:

- significant leverage;
- a dated electrical system that is in a challenged condition due, in part, to substandard practices and chronic infrastructure underinvestment; and
- the geographic mismatch between supply and demand — much of the generation is located on the south side of the island while a majority of the demand is on the north side of the island, exacerbating the fragility of the whole system.

2.2.2 Current Status of the T&D System

The T&D system interconnects PREPA's power plants with major switching and load centers throughout Puerto Rico. The T&D system currently has 1,115 miles of transmission lines (230 kV and 115 kV), 1,376 miles of subtransmission lines (38kV) and 31,628 miles of distribution lines (13.2 kV through 4.16 kV). The T&D system includes 178 transmission centers, 60 115 kV substations, 279 38 kV substations and 822 private substations.

Even prior to Hurricanes Irma and Maria, the T&D system faced numerous challenges, including a significant lag in technological upgrades, an aging and deteriorated system, high vulnerability to weather conditions, inconsistent customer support and collections operations and limited access to capital markets. The damage caused by Irma and Maria has exacerbated these challenges and raised new ones.

2.2.3 T&D System Transformation

Puerto Rico needs an upgraded grid to increase reliability and resiliency, reduce cost, facilitate distributed generation and allow for economic recovery of the island. Pursuant to Act 120, PREPA is authorized to carry out PPP transactions with respect to any function, service or facility of PREPA, including the T&D system. In turn, Act 120 designates the Authority as the only government entity authorized to determine and to be responsible for the functions, services or facilities for which PPPs will be established, subject to the priorities, objectives and principles established in the energy public policy and regulatory framework to be developed by the Government pursuant to Act 120.

Act 120 set in motion the development of a new regulatory framework for the electric sector. A working group was created under Act 120 to develop a new energy public policy and regulatory framework, in consultation with the Southern States Energy Board and the U.S. Department of Energy, among others. Proposed legislation to establish this new framework for Puerto Rico's energy sector was filed in the Puerto Rico legislature on October 17, 2018 (the "**Proposed Electric Sector Regulatory Framework**"). The Proposed Electric Sector Regulatory Framework is expected to be reviewed and refined by the legislature in the coming months, as provided by Section 9 of Act 120.

2.3 Project Structure

The Project contemplates PREPA entering into a long-term PPP Contract with a Private Partner. Throughout the term of the PPP Contract, the Government will retain ownership of and title to all T&D assets and the Private Partner will manage and operate the T&D system and assist with the procurement associated with, and the management and deployment of, federal funds received for the restoration of the T&D system.

2.3.1 Description

As currently envisioned, a single Private Partner will assume all rights and responsibilities related to the operation, maintenance and management of the T&D system. These rights and responsibilities are expected to include, among other things:

- operation and maintenance of the T&D assets and system, including street lights and meters;
- control center operations, including generation scheduling and economic system dispatch;
- integration of renewable generation and distributed energy resources;
- power procurement;
- end customer metering, service and support (including billing and collections);
- new service requests for secondary and primary connected customers;
- outage management and restoration;
- coordination of emergency planning and storm restoration and recovery;
- interfacing with regulators, including with respect to environmental compliance;
- general system planning, including sourcing, designing and implementing system growth and improvement;
- acting as a servicer in connection with any charges imposed in respect of legacy obligations; and
- ongoing public reporting.

In addition to the services typically performed by the operator of a T&D system, the Authority intends for the Private Partner to administer the federal disaster recovery funding available for the restoration of the T&D system. Under certain circumstances, the Private Partner may have the opportunity to make capital investments in the T&D system not otherwise paid for by federal disaster recovery funding.

Under the contemplated structure for the Project, the Private Partner's compensation will consist of a regulated base management fee, which will be supplemented by performance payments linked to established performance standards. The Authority is seeking a Private Partner capable of meeting or exceeding established operational and performance standards while complying with applicable rate and performance regulation.

2.3.2 Federal Disaster Recovery Funding

FEMA funds or other federal disaster recovery grant funding will be available to partially finance the restoration of the T&D system; however, the timing and amount of any FEMA or other federal disaster recovery grant proceeds are uncertain.

In the event that the Authority and PREPA advise the Private Partner that FEMA or other federal disaster recovery grant funding will be used for eligible work, the Private Partner will be required to cooperate with the Authority, PREPA and any applicable federal or other public entity partners to the fullest extent possible, including assisting with management of any repair or construction work for the T&D system, if so assigned by the Authority and/or PREPA, and coordination of any necessary elements of the work or grant application process.

Any grant funding made available to the T&D system will be subject to compliance with the terms of each FEMA or other federal disaster recovery grant. If FEMA or other federal disaster recovery grant funding is made available, the Private Partner will be required to comply with the terms and conditions of the applicable grants and sub-grants and the conditions required by the Authority and PREPA in order not to jeopardize the availability of such funding. This may include, but is not limited to, a requirement that the Private Partner execute an agency or similar agreement to facilitate the Private Partner's completion of any repair or construction work that may be assigned on behalf of the Authority and/or PREPA.

In the event that FEMA or other federal disaster recovery grant funding is made available for any repair or construction work for the restoration of the T&D system, such work must be separately procured by or for the account of PREPA in full compliance with the requirements of the PPP Regulation and the procurement rules set forth in 2 C.F.R. Part 200 and applicable to procurement by PREPA. Further, such work may only be awarded to a Team Member of the Private Partner, or to any entity deemed Related to the Private Partner or any Team Member, if that entity responds and is selected pursuant to a properly issued procurement consistent with the PPP Regulation and as consistent with and allowed by the Ethics Guidelines.

3. Respondent Qualification Requirements and Evaluation Criteria

In order to provide an objective and transparent evaluation method, the PPP Committee will evaluate SOQs by applying the criteria outlined in the table below ("**Evaluation Criteria**"). Application of the Evaluation Criteria will assist the PPP Committee in identifying the Qualified Respondents.

	Evaluation Criteria
Part 1	**Compliance with Requirements of the PPP Act and Act 120**
	Each SOQ submitted pursuant to this RFQ will be reviewed to determine whether it satisfies the requirements under the PPP Act, the PPP Regulation and Act 120 in the following areas:
1.1	Respondents that are corporations, partnerships or any other legal entity, whether based in the U.S., including Puerto Rico, or elsewhere in the world, shall be properly registered, or capable of being properly registered, to do business in Puerto Rico at the time of the execution of the PPP Contract, and shall comply with all applicable Puerto Rico and U.S. laws and/or requirements.
1.2	Each Respondent and each Team Member shall certify that: (a) neither it nor any of its directors, officers, controlling shareholders or subsidiaries, nor its parent company, nor in the case of a partnership, any of its partners, nor any person or entity that may be considered an alter ego or the passive economic agent of the Respondent or Team Member, as applicable, (each, a "**Covered Party**"), has been convicted, entered a guilty plea, been indicted or had probable cause found for their arrest in any criminal proceeding in Puerto Rico, the rest of the U.S. or any foreign jurisdiction for: (i) any of the crimes referenced in Articles 4.2, 4.3 or 5.7 of Act No. 1-2012, as amended, known as the Organic Act of the Office of Government Ethics of Puerto Rico; (ii) any of the crimes typified in Articles 250 through 266 of Act No. 146-2012, as amended, known as the Puerto Rico Penal Code; or (iii) any of the crimes listed in Act No. 2-2018, as amended, known as the Anti-Corruption Code for a New Puerto Rico or any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act No. 8-2017, as amended, known as the Act for the Administration and Transformation of Human Resources in the Government, or under the U.S. Foreign Corrupt Practices Act; nor is any Covered Party under investigation in any legislative, judicial or administrative proceedings, in Puerto Rico, the rest of the U.S. or any other jurisdiction; (b) it is in compliance and shall continue to comply at all times with all federal, state, local and foreign laws applicable to the Respondent or Team Member(s) that prohibit corruption or regulate crimes against public functions or public funds, including the U.S. Foreign Corrupt Practices Act;

Evaluation Criteria

1.2 (*cont'd*)

(c) it completed the SOQ without prior understanding, agreement, connection, discussion or collusion with any other person, firm or corporation submitting or participating in the submission of a separate SOQ or any officer, employee or agent of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or any public agency of Puerto Rico; and

(d) except as provided in Section 1.9 of this RFQ, it shall not attempt to communicate in relation to this RFQ, directly or indirectly, with any representative of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or any public agency of Puerto Rico, including any Restricted Parties or any director, officer, employee, agent, advisor, staff member, counsel, consultant or representative of any of the foregoing, as applicable, for any purpose whatsoever, including for purposes of:

(i) commenting on or attempting to influence views on the merits of the Respondent's and Team Members' SOQ, or in relation to their SOQ;

(ii) influencing, or attempting to influence, the outcome of the RFQ Process or of the competitive selection process, including the review and evaluation of SOQs or the selection of the Qualified Respondents;

(iii) promoting the Respondent and Team Members or their interests in the Project, including in preference to that of other Respondents or Team Members;

(iv) commenting on or criticizing aspects of this RFQ, the competitive selection process or the Project, including in a manner which may give the Respondent or its Team Members a competitive or other advantage over other Respondents or their respective Team Members; or

(v) criticizing the SOQs of other Respondents.

Requirements 1.1 and 1.2 may be satisfied by completing the Form of Respondent Certification included as Appendix A to this RFQ.

	Evaluation Criteria
Part 2	**Background & Team Information (15 pages maximum)**

Respondent and Team Member(s) are encouraged to provide enough supporting information and details to enable the evaluators to perform a thorough evaluation of their strengths, roles and responsibilities.

2.1 A description of the Respondent and all Team Members that identifies:

- anticipated roles, functions and overview of business operations;
- jurisdiction, form of entity organization, ownership structure and capitalization;
- currently and formerly owned or controlled electric utility operating companies;
- anticipated legal relationships (*e.g.*, joint ventures, partnerships) and percentage ownership interest;
- up to five individuals who will play an important role in the Project on behalf of Respondent and Team Member(s) (the "**Key Individuals**") and their roles;
- instances, if relevant, in which Respondent and Team Member(s) have previously worked together;
- evidence of experience carrying out major infrastructure projects;
- evidence and tenor of operations and management experience in electric power T&D (including experience with system dispatch, power purchase and/or operating agreements); and
- experience administering FEMA and other federal disaster relief funding.

2.2 A list of technical, financial, legal, accounting or other advisors that Respondent or any Team Member has engaged or intends to engage in connection with the Project.

2.3 Respondent will be expected to have current or past large-scale electric utility operations and management experience. As such, Respondent or at least one Team Member must demonstrate that its current or previous electric utility operations and management fulfills the following criteria on a sustained basis:

- at least 250,000 customers;
- electric utility T&D rate base of at least $2 billion; and
- at least 1,000 employees.

2.4 Resumes (indicating overall experience and any specific experience relevant to the nature and scope of the Project) for the Key Individuals. It is expected that the anticipated management team will be comprised of individuals with at least ten years of relevant electric utility managerial experience for all executive-level positions.

(One page per resume maximum and resumes will not count towards the overall page count for Part 2)

GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority

	Evaluation Criteria
Part 3	**Financial Capabilities (10 pages maximum)**

The evaluation of financial capabilities will examine each SOQ in accordance with the criteria set out below:

3.1 **Financial Capacity of Team:** Respondent must demonstrate adequate financial wherewithal to fulfill the terms of the PPP Contract. Each Respondent or, if a consortium, at least one Team Member, must provide:

- evidence of demonstrated track record of earned return on equity (ROE) approximating regulatory authorized return on equity (ROE);
- evidence of experience with formal regulatory proceedings or similar rate justification proceedings in a U.S. or similar regulatory jurisdiction (may be full rate case proceedings or a private rate case settlement);
- credit ratings (if any); and
- copies of audited financial statements, Form 10-Ks or similar types of annual reports for the past two years, together with any other relevant financial information.

(Audited financials & supporting information not included in page count)

3.2 **Ability to Raise Financing:** Respondent must provide specific evidence demonstrating their ability to raise financing. Specific factors that will be assessed include:

- capability of raising significant quantities of debt and equity in the current capital markets;
- the number and size of past relevant transactions; and
- specific experiences on past relevant transactions.

At a minimum each Respondent or at least one Team Member must provide evidence of at least five debt or equity raises, each of at least $100 million in proceeds.

	Evaluation Criteria
Part 4	**Technical & Operational Capabilities (50 pages maximum)**
	The evaluation of technical capabilities will examine each SOQ in accordance with the criteria set out below:

4.1 Respondent must demonstrate its technical and operational capabilities to fulfill the terms of the PPP Contract. Detailed evidence on the following criteria will be required for Respondent or at least one Team Member:

- for the past five years, operational metrics including SAIDI, SAIFI, CAIDI (customer average interruption duration index per the most recent key performance indicators published by the American Public Power Association), and OSHA (Occupational Safety and Health Administration) recordable events within acceptable industry standards for U.S. mainland utilities;
- track record of sustained customer satisfaction;
- experience with at least three large scale T&D projects, each with total investment of at least $50 million;
- certification of no significant or sustained environmental regulation violations; and
- sustained history of reasonable customer rates (taking into account any unique local challenges).

Respondent and Team Member(s) should aim to provide sufficient evidence to demonstrate an intimate understanding of the power and electric utility industry, especially as it applies to owning, operating and dispatching large-scale electric utility T&D infrastructure. Operations, maintenance, improvements, vegetation management, customer service, community relations, safety and environmental responsibility should each be a key focus.

4.2 Respondent and Team Member(s) should describe their degree of experience:

- coordinating the safe, reliable and economic dispatch of electric utility systems, particularly those with significant reliance on renewable energy resources;
- negotiating and executing power supply agreements, including tolling, take-or-pay or similar types of power supply agreements;
- operating electric utility T&D infrastructure on an island or other stranded location in both urban and rural settings and under challenging natural circumstances, such as mountainous regions and dense vegetation growth;
- operating electric utility T&D infrastructure in a natural disaster-prone region, including hurricanes, flooding, earthquakes and wildfires, and experience with post-event restoration and electrification;
- system planning taking into account long-term customer demand projections to be met with electric supply, which may include integrated resource planning;
- managing disaster recovery operations, federal disaster relief funding and relationships with FEMA and other government entities; and
- operating electric utility T&D infrastructure that incorporates significant and expanding renewable project interconnection requests, generation capacity, distributed generation, advanced grid technology implementation, energy efficiency initiatives, energy storage and micro grids (if any).

	Evaluation Criteria
Part 5	**Safety Performance (no page limit)**
5.1	Respondent and Team Member(s) must demonstrate (a) their ability to address and resolve safety issues and (b) their knowledge of safety strategies and methodologies. Respondent and Team Member(s) must submit copies of the Occupational Safety and Health Administration (OSHA) 300 forms for the past three years, only as related to electric utility operations. If not applicable, Respondent and Team Member(s) must present a document explaining the reasons for not submitting the form. *These may be included in an appendix.*

4. SOQ Requirements & Procedure

4.1 SOQ Requirements

Overview of Requirements

A physical copy of the original SOQ must be delivered no later than the Submission Deadline. Prospective Respondents that anticipate responding to this RFQ should so indicate as soon as possible by sending to the e-mail address listed below the necessary contact information. The SOQ must comply with the outline provided under "Required Information for SOQ" below and all other conditions identified in this RFQ. Additional information not specifically related to the Project or this RFQ should not be included in the SOQ. All questions or requests for information regarding this RFQ should be directed to the PPP Committee via e-mail, as provided in Section 1.9 of this RFQ. Please do not contact any officials or related parties of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government or the FOMB. Such contact may serve as grounds for disqualification.

Address questions, comments, RFCs to:

Puerto Rico Electric Power T&D System PPP Committee

Request for Qualifications

Puerto Rico Electric Power T&D System Project

E-mail: P3TDProject@p3.pr.gov

No Liability for Costs

The Authority, PREPA, other agencies and instrumentalities of the Government and their respective advisors are not responsible for costs or damages incurred by Respondents, Team Members, subcontractors or other interested parties in connection with the solicitation or procurement process, including but not limited to costs associated with preparing responses, qualifications and proposals, and of participating in any conferences, oral presentations or negotiations, whether in connection with this RFQ Process, the RFP Process or otherwise. A Qualified Respondent will not be entitled to indemnity (including, but not limited to, reimbursement for costs and expenses) from the Authority, PREPA or any other agency or instrumentality of the Government if the Authority or PREPA decide, in their discretion, to terminate the procurement process for this Project.

Modification and Termination Rights

The Authority and PREPA reserve the right to modify or terminate the RFQ Process and the RFP Process for this Project at any stage if the Authority or PREPA determines such action to be in the public interest. The receipt of responses or proposals or other documents at any stage of either this RFQ or the RFP Process will in no way obligate the Authority or PREPA to enter into any contract of any kind with any party.

4.2 Required Information for SOQ

Compliance with this RFQ

The SOQ must be prepared in English and follow the format outlined below. Respondents may opt to submit responses in Word or PowerPoint templates. Responses must comply with the following format:

- Cover Page (to include identification of all management Team Members)
- Cover Letter (two pages maximum)
- Table of Contents
- Executive Summary (two pages maximum)
- The specific requirements as set out in Section 3 of this RFQ:
  - **Part 1: Compliance with the Requirements of the PPP Act and Act 120 (No page limit)**
    - An executed Respondent Certification from the Respondent **and each Team Member**. This Certification must strictly follow the form attached to this RFQ as Appendix A.
    - An executed Document Acknowledgement and Contact Information letter from the Respondent (executed by the contact person ("**Respondent Representative**") for all future communication between the Authority and the Respondent). This letter must strictly follow the form attached to this RFQ as Appendix B.
  - **Part 2: Background & Team Information (15 pages maximum)**

  Respondents should address all areas referred to in the Evaluation Criteria set out in Section 3 of this RFQ, under the heading "Background & Team Information".

  - **Part 3: Financial Capabilities (10 pages maximum)**

  Respondents should address all areas referred to in the Evaluation Criteria set out in Section 3 of this RFQ, under the heading "Financial Capabilities".

  - **Part 4: Technical & Operational Capabilities (50 pages maximum)**

  Respondents should address all areas referred to in the Evaluation Criteria set out in Section 3 of this RFQ, with respect to "Technical Capabilities".

  - **Part 5: Safety Performance (No page limit)**

  Respondents should submit copies of the documents required by Section 3 of this RFQ with respect to safety performance. If not applicable, a Respondent should present a document explaining the reasons for not submitting such documents. Respondents must demonstrate (a) their ability to address and resolve safety issues, and (b) their knowledge of safety strategies and methodologies.

4.3 Reporting of Material Adverse Change

Prior to the issuance of the RFP documents, the Authority and PREPA may, in their discretion, request that a Respondent confirm that there have been no material changes to the information submitted with respect to the Respondent and/or any Team Member in the relevant SOQ. If there have been any material changes to the submitted information, the Respondent must provide details of such changes in accordance with any requirements the Authority or PREPA may impose at that time. The PPP Committee will evaluate the information

submitted by the Respondent in accordance with the evaluation criteria set out in Section 3 of this RFQ, and may revise the results of the Respondent's evaluation.

4.4 SOQ Submission Instructions

The Respondent must submit one originally executed SOQ, with signatures in blue ink and marked as "Original", and four copies along with one copy in portable document format (PDF) on a CD or USB flash drive. **A physical copy of the original SOQ must be delivered no later than the Submission Deadline, December 5, 2018 at 5:00 pm AST.** Respondents should not submit promotional materials as part of their SOQs and are strongly encouraged not to submit information that is not required by this RFQ. Respondents are strongly encouraged to be succinct in their SOQs. Respondents must limit their SOQs, or each component of their SOQs, to the maximum number of pages indicated in Section 4.2 of this RFQ. The PPP Committee will not review pages submitted in excess of the maximum number of pages indicated for such item. The SOQ must be labeled as follows:

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Puerto Rico Public-Private Partnerships Authority

Puerto Rico Electric Power T&D System PPP SOQ Submitted by (*Respondent's name and Address*)

The SOQ must be delivered to:

Puerto Rico Electric Power T&D System PPP

Puerto Rico Public-Private Partnerships Authority

Attn: Omar J. Marrero, Esq. — Executive Director

Puerto Rico Fiscal Agency and Financial Advisory Authority Building

(former GDB Building), 3rd Floor Roberto Sánchez Vilella Government Center, De Diego Avenue

San Juan, PR 00940-2001

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4.5 Confidentiality of SOQ

All SOQs will become the property of the Authority and may become public in accordance with applicable law, except for documents or information submitted by Respondents that are trade secrets, proprietary information or privileged or confidential information of the Respondents. Respondents are advised to review the confidentiality and publication provisions contained in Sections 9(i) and 9(j) of the PPP Act and Section 9.3 of the PPP Regulation. In order to ensure that documents identified by Respondents as "confidential" or "proprietary" will not be subject to disclosure under the PPP Act, Respondents must label such documents as "confidential" or "proprietary," provide a written explanation of why such labeled documents are "confidential" or "proprietary," including why the disclosure of the information would be commercially harmful, specifically refer to any legal protection currently enjoyed by such information and why the disclosure of such information would not be necessary for the protection of the public interest, and request that the documents so labeled be treated as confidential by the PPP Committee according to the process described in the following paragraph.

If a Respondent has special concerns about confidential or proprietary information that it desires to make available to the PPP Committee prior to its SOQ, such Respondent may wish to:

- make a written request to the PPP Committee for a meeting to specify and justify proposed confidential or proprietary documents;
- make an oral presentation to the PPP Committee staff and legal counsel; and
- receive written notification from the PPP Committee accepting or rejecting confidentiality requests.

Failure to take such precautions prior to filing an SOQ may subject confidential or proprietary information to disclosure under Sections 9(i) and 9(j) of the PPP Act and/or Section 12.3 of the PPP Regulation.

The PPP Committee will evaluate all confidentiality requests according to the criteria indicated in the PPP Act and the PPP Regulation. The PPP Committee will determine whether or not the requested materials are exempt from disclosure. Upon such determination, the Authority will endeavor to maintain the confidentiality of any information that a Respondent indicates to be proprietary or a trade secret, or that must otherwise be protected from publication according to law, except as required by law or by a court order. In the event that the PPP Committee elects to disclose the requested materials, it will provide the Respondent notice of its intent to disclose, in which case the Respondent may request the immediate return of such materials prior to disclosure by the PPP Committee and they will thereafter form no part of the Respondent's submission. In no event will the Government, the Authority, the PPP Committee or PREPA be liable to a Respondent for the disclosure required by law or a court order of all or a portion of an SOQ filed with the Authority.

Upon execution of the PPP Contract, the PPP Committee is required to make public its report regarding the procurement process, which report will contain information related to the qualification, procurement, selection and negotiation process, and the information contained in the SOQ, except information that qualifies as trade secrets, confidential, proprietary or privileged information of the Respondent or its Team Members clearly identified as such by the Respondent, or information that must otherwise be protected from publication according to law, as may have been determined by the PPP Committee, unless otherwise required by law or by a court order.

4.6 Use of Confidential Information

Each Respondent must declare, and agree to be under an obligation to declare, that it does not have knowledge of or the ability to avail itself of confidential information of the Government, PREPA or the Authority relevant to the Project, except to the extent it has been expressly authorized by the Government, PREPA or the Authority. Such confidential information:

- will remain the sole property of the Government, the Authority or PREPA, as applicable, and the Respondent and its Team Members will treat it as confidential;
- may not be used by the Respondent or its Team Members for any other purpose other than submitting an SOQ, RFP submission or the performance of any subsequent agreement relating to the Project with the Government, the Authority or PREPA, as applicable;
- may not be disclosed by the Respondent or any Team Member to any person who is not involved in the Respondent's preparation of its SOQ, RFP submission or the performance of any subsequent agreement relating to the Project with the Government, the Authority or PREPA, as applicable, without prior written authorization from the party in respect of whom the confidential information relates;
- if requested by the Government, the Authority or PREPA, will be returned or destroyed, as appropriate, no later than ten calendar days after such request; and
- may not be used in any way that is detrimental to the Government, the Authority or PREPA.

Each Respondent and its Team Members will be responsible for any breach of the provisions of this Section 4.6 by any person to whom any of them discloses the confidential information. Each Respondent and its Team Members acknowledge and agree that a breach of the provisions of this Section 4.6 would cause the Authority, PREPA, the Government and/or their related entities to suffer loss which could not be adequately compensated by damages, and that the Authority, PREPA, the Government and/or any related entity may, in addition to any other remedy or relief, enforce any of the provisions of this Section 4.6 upon submission of the Respondent's SOQ to a court of competent jurisdiction for injunctive relief without proof of actual damage to the Authority, PREPA, the Government or any related entity.

The provisions in this Section 4.6 will survive any cancellation of this RFQ or the RFP and the conclusion of the RFQ Process and the RFP Process.

4.7 Conflicts of Interest and Ineligible Persons

Each Respondent Representative submitting an SOQ on behalf of such Respondent and the Team Members of such Respondent must declare and continue to be under an obligation to declare all Conflicts of Interest or any situation that may be reasonably perceived as a Conflict of Interest that exists now or may exist in the future. A "**Conflict of Interest**" includes any situation or circumstance where in relation to the Project, the Respondent submitting an SOQ or any Team Member of such Respondent has other commitments, relationships or financial interests that:

(a) could or could be seen to exercise an improper influence over the objective, unbiased and impartial exercise of the Authority's or PREPA's independent judgment; or

(b) could or could be seen to compromise, impair or be incompatible with the effective performance of its obligations under the PPP Contract.

In connection with its SOQ, each Respondent and each Team Member will:

(a) avoid any Conflict of Interest in relation to the Project;

(b) disclose to the Authority and to PREPA without delay any actual or potential Conflict of Interest that arises during the RFQ Process or at any point in the procurement process; and

(c) comply with any requirements prescribed by the Authority and PREPA to resolve any Conflict of Interest.

Each Respondent is responsible for ensuring that all persons engaged to provide any type of assistance in connection with the Project are in compliance with the provisions of the Ethics Guidelines and, to the extent any question exists as to compliance with the Ethics Guidelines, the Respondent should consult with the Authority.

In addition to all contractual or other rights or rights available at law or in equity or legislation, the Authority and PREPA may immediately exclude a Respondent or any of its Team Members from further consideration or remove the Respondent or any Team Member from the RFQ Process if:

(a) the Respondent knew, or reasonably should have known, and fails to disclose an actual or potential Conflict of Interest;

(b) the Respondent submitting an SOQ or a Team Member of such Respondent fails to comply with any requirements prescribed by the Authority or PREPA to resolve a Conflict of Interest; or

(c) the Respondent's Conflict of Interest issue cannot be resolved.

Pursuant to Section 8.1 of the PPP Regulation, any person, by virtue of its participation in this RFQ Process, authorizes the Authority to apply to the relevant competent governmental authority to obtain further information

regarding a prospective Respondent and in particular, details of convictions of the offenses listed in Section 9(c)(ii) of the PPP Act if the PPP Committee considers it necessary for its selection or evaluation process.

4.8 RFQ Miscellaneous Instructions

Addenda to RFQ

The Authority reserves the right to amend this RFQ at any time. All amendments to this RFQ will be described in written addenda. Copies of each addendum will be available at the Authority's website: http://www.p3.pr.gov. Respondents are encouraged to review the Authority's web page regularly. All addenda will become part of this RFQ. In the event of any conflict in the wording or any issue of interpretation, addenda, when issued, will take priority over the original wording in this RFQ and any wording in prior addenda. Each Respondent will, in its SOQ, acknowledge receipt of each addendum. Each Respondent is solely responsible to ensure that it and its Team Members have received all communications issued by the Authority and PREPA. A failure to obtain any such communication is at the sole and absolute risk of the Respondent and its Team Members, and the Authority and PREPA accept no responsibility for the failure of any Respondent or Team Member to receive or obtain all RFQ information (including addenda). Each response to this RFQ is deemed to be made on the basis of the complete RFQ, as amended by any addenda, issued prior to the Submission Deadline.

Withdrawal of SOQs

A Respondent may withdraw an SOQ by delivering to the Authority a written request for withdrawal prior to the Submission Deadline at the address for delivery of SOQs set forth in Section 4.4 of this RFQ. Any such withdrawal does not prejudice the right of a Respondent to submit another SOQ prior to the Submission Deadline.

4.9 Disclaimer

The information provided in this RFQ, or any other written or oral information provided by the Authority, PREPA, the PPP Committee, the Government or their respective officers, employees, advisors, counsel or consultants in connection with the Project or the selection process is provided for the convenience of the Respondents only. Respondents and their Team Members will make their own conclusions as to such information. Oral explanations or instructions from officials, employees, advisors, counsel or consultants of the Authority, PREPA, the PPP Committee or any Puerto Rico public agency will not be considered binding on the Authority, PREPA, the PPP Committee or the Government. The Authority, PREPA, the PPP Committee, the Government and their respective officers, employees, advisors, counsel and consultants make no representation or warranty as to any information provided in connection with this RFQ Process or the RFP Process. The accuracy and completeness of such information is not warranted by any of them and none of them will have any liability in connection with such information or the selection process, all of which liability is expressly waived by each Respondent and each Team Member of such Respondent. This RFQ is not an offer to enter into any contract of any kind whatsoever.

4.10 Reservation of Rights

In furtherance of the Authority's mission, the PPP Committee reserves the right to reject any and all SOQs, to waive technical defects, irregularities or any informality in SOQs, and to accept or reject any SOQs in its sole and absolute discretion. The PPP Committee also reserves the right to postpone the date on which SOQs are required to be submitted, or to take any other action it may deem in the best interests of the Authority and PREPA.

In addition, the Authority and PREPA reserve all rights (which rights will be exercisable by the Authority and PREPA in their sole and absolute discretion) available to them under applicable laws and regulations, including, without limitation, with or without cause and with or without notice, the right to:

(a) modify the procurement process to address applicable law and/or the best interests of the Authority, PREPA and the Government;

(b) develop the Project in any manner that they deem necessary and change the limits, scope and details of the Project;

(c) if the Authority and PREPA are unable to negotiate a PPP Contract to their satisfaction with a Private Partner, terminate the process or pursue other alternatives relating to the Project, or exercise such other rights as they deem appropriate;

(d) cancel the procurement process, as applicable, in whole or in part, at any time prior to the execution by PREPA of the PPP Contract, without incurring any cost, obligation or liability whatsoever;

(e) issue a new request for qualification after withdrawal of this RFQ;

(f) reject or disqualify any and all SOQs and responses received at any time for any reason without any obligation, compensation or reimbursement to any existing or prospective Respondent or Team Member;

(g) modify all dates, deadlines, process, schedule and other requirements set out, described or projected in this RFQ;

(h) terminate evaluations of responses received at any time;

(i) exclude any Respondent from submitting any response to this RFQ based on the failure to comply with any requirements;

(j) issue addenda, supplements and modifications to this RFQ;

(k) require direct confirmation of information furnished by a Respondent, additional information from a Respondent concerning its response or additional evidence of qualifications to perform the work described in this RFQ;

(l) consider, in the evaluation of any SOQ, any instances of poor performance by a Respondent, Team Member or Key Individual that any of the Authority, PREPA or the Government may have experienced or experienced by a third party, whether one of the included references or otherwise;

(m) seek or obtain data from any source that has the potential to improve the understanding and evaluation of the responses to this RFQ;

(n) add or delete Respondent responsibilities from the information contained in this RFQ or any subsequent process instruments;

(o) negotiate with any party without being bound by any provision in its response;

(p) waive any deficiency, defect, irregularity, non-conformity or non-compliance in any response to this RFQ or permit clarifications or supplements to any response to this RFQ, and accept such response even if such deficiency, defect, irregularity, non-conformity or non-compliance would otherwise render the response null and void or inadmissible;

(q) add or eliminate facility expansion to or from the Project;

(r) incorporate this RFQ or any Respondent's response to this RFQ or portion thereto as part of the RFP Process or any formal agreement with a Private Partner; and

(s) exercise any other right reserved or afforded to the Authority and PREPA under the PPP Act, the PPP Regulation, this RFQ or applicable law.

This RFQ does not commit either the Authority or PREPA to enter into a contract or proceed with the Project as described herein. The Authority, PREPA and the Government assume no obligations, responsibilities or liabilities, fiscal or otherwise, to reimburse all or part of the costs incurred or alleged to have been incurred by parties considering a response to and/or responding to this RFQ, or in considering or making any submission. All of such costs will be borne solely by each Respondent.

4.11 Limitation of Damages

Each Respondent, by submitting an SOQ, agrees that in no event will the Authority, PREPA, the PPP Committee, the Government or any of their respective directors, officers, employees, advisors, counsel or representatives be liable, under any circumstances, for any claim, demand, liability, damage, loss, suit, action or cause of action, whether arising in contract, tort or otherwise, and all costs and expenses relating thereto (each, a "**Claim**"), or to reimburse or compensate the Respondent, any Team Member or their respective directors, officers, employees, advisors, counsel, accountants and other consultants and representatives, in any manner whatsoever, including, without limitation, any costs of preparation of the SOQ or the response to the RFP, loss of anticipated profits, loss of opportunity or for any other matter. Without in any way limiting the above, each Respondent and Team Member of such Respondent specifically agrees that it will have absolutely no Claim against the Authority, PREPA, the PPP Committee or the Government or any of their respective directors, officers, employees, advisors, counsel or representatives if any such party for any reason whatsoever:

- does not select a list of Qualified Respondents;
- suspends, cancels or in any way modifies the Project or the solicitation process (including modification of the scope of the Project or modification of this RFQ or both);
- accepts any compliant or non-compliant response or selects a list of one or more Qualified Respondent(s);
- under the terms of this RFQ permits or does not permit a Restricted Party to advise, assist or participate as part of a Respondent or its Team Members; or,
- breaches or fundamentally breaches a contract or legal duty of the Authority, PREPA, the PPP Committee or the Government, whether express or implied, and each Respondent and each Team Member waives any and all Claims whatsoever, including Claims for loss of profits or loss of opportunity, if the Respondent is not selected as a Qualified Respondent for any other reason whatsoever.

4.12 Judicial Review

Judicial review of the selection and award process for qualifications must be pursued in accordance with Section 20 (Judicial Review Procedures) of the PPP Act. Only those Respondents who comply with the applicable requirements set forth in Section 20 of the PPP Act may request judicial review of a final determination that a Respondent is not qualified. Mechanisms for requesting reconsideration before the Authority or PREPA will not be available.

Section 20 establishes the period within which to seek judicial review, for the Puerto Rico Court of Appeals to address the writ of review, and to seek a writ of certiorari before the Puerto Rico Supreme Court. Section 20 also prescribes the notification requirements and the consequences of seeking such judicial remedies, including that if either the Puerto Rico Court of Appeals or the Puerto Rico Supreme Court grants a writ of review or writ of

certiorari, as applicable, the procedures for the qualification of respondents, or for the evaluation or selection of proposals or negotiation of the PPP Contract by the PPP Committee will not be stayed.

The qualification determinations of the PPP Committee and the approval of the PPP Contract by the Governor or the official onto whom he/she delegates, as provided under Section 9(g)(ii)-(v) of the PPP Act will only be overturned upon a finding of manifest error, fraud or arbitrariness. The non-prevailing party will defray the expenses incurred by the other parties involved in judicial review proceedings under Section 20 of the PPP Act. The Respondent that seeks judicial review may not, under any circumstance, as part of its remedies, claim the right to be redressed for indirect, special or foreseeable damages, including lost profits.

The above is only a succinct summary of Section 20 of the PPP Act and Respondents should review and understand such judicial review provisions.

APPENDIX A: FORM OF RESPONDENT AND TEAM MEMBERS CERTIFICATION

[Letterhead of each Respondent or Team Member, as applicable]

Mr. Omar J. Marrero, Esq. — Executive Director
Puerto Rico Public-Private Partnerships Authority
Roberto Sánchez Vilella Government Center
De Diego Avenue, Parada 22
San Juan, PR 00940-2001 USA

Re: Puerto Rico Electric Power T&D System PPP - Request for Qualifications

Ladies and Gentlemen:

We have carefully reviewed the Request for Qualifications dated October 31, 2018 ("**RFQ**") issued by the Puerto Rico Public-Private Partnerships Authority and all other documents accompanying or made a part of the RFQ. Capitalized terms used in this certificate have the meanings given to them in the RFQ.

We acknowledge and agree to comply with all terms and conditions of the RFQ, the attached Statement of Qualifications ("**SOQ**") and all enclosures thereto. Without limitation, we specifically acknowledge the disclaimer contained in Section 4.9 of the RFQ and the limitation of damages contained in Section 4.11 of the RFQ.

We certify that the information contained in the attached SOQ is true and correct. We further certify that the individual who has signed and delivered this certification is duly authorized to submit the attached SOQ on behalf of the Respondent or Team Member, as applicable, as its acts and deed and that the Respondent or Team Member, as applicable, is ready, willing and able to participate in the RFP Process and perform if awarded the PPP Contract.

We further certify that we are *[describe the type of entity or entities (corporation, partnership, LLC, etc.)]* organized in *[indicate the jurisdiction of organization]* and the entity contemplated by Respondent and Team Members to be the one that shall execute the PPP Contract shall have no impediment to, and shall be authorized to do business in Puerto Rico and to enter into a contractual relationship with government entities in Puerto Rico, as well as to comply with any other applicable Puerto Rico or U.S. laws and/or requirements.

We further certify that our directors, officers, controlling shareholders or subsidiaries, parent company and, in the case of a partnership, our partners, and any person or entity that may be considered an alter ego or the passive economic agent of the Respondent or Team Member, as applicable (each, a "**Covered Party**"), have not been convicted, have not entered a guilty plea and have not been indicted, and probable cause has not been found for their arrest, in any criminal proceeding in Puerto Rico, the rest of the U.S. or any foreign jurisdiction, for (i) any of the crimes referenced in Articles 4.2, 4.3 or 5.7 of Act No. 1-2012, as amended, known as the Organic Act of the Office of Government Ethics of Puerto Rico, (ii) any of the crimes typified in Articles 250 through 266 of Act No. 146-2012, as amended, known as the Puerto Rico Penal Code or (iii) any of the crimes listed in Act No. 2-2018, as amended, known as the Anti-Corruption Code for a New Puerto Rico or any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act No. 8-2017, as amended, known as the Act for the Administration and Transformation of Human Resources in the Government, or under the U.S. Foreign Corrupt Practices Act; no Covered Party is under investigation in any legislative,

judicial or administrative proceedings, in Puerto Rico, the rest of the U.S. or any other jurisdiction. The Respondent and Team Members are in compliance with all federal, state, local and foreign laws applicable to the Respondent or Team Member(s) that prohibit corruption or regulate crimes against public functions or public funds, including the U.S. Foreign Corrupt Practices Act.

We further certify that we shall continue to comply at all times with laws which prohibit corruption or regulate crimes against public functions or funds, as may apply to the Respondent or any Team Member, as applicable, whether federal, state or Government statutes, including the Foreign Corrupt Practices Act.

We further certify that no officer or employee of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or any public agency of Puerto Rico who participates in the selection process described in, or negotiations in connection with, the RFQ (nor any member of their families) has an economic interest in or is connected with the *[Respondent or Team Member, as applicable]*, and no officer or employees of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or any public agency of Puerto Rico (nor any member of their families) has directly or indirectly participated with the *[Respondent or Team Member, as applicable]* in the preparation of its SOQ.

We further certify that we are in compliance with the provisions of Act No. 2 of 2018, also known as the Anti-Corruption Act 2018.

We further certify that we have reviewed the provisions of the Authority's Guidelines for the Evaluation of Conflicts of Interest and Unfair Advantages in the Procurement of Public-Private Partnership Contracts, available on the Authority's website: http://www.p3.pr.gov, and that we are in compliance therewith.

We further certify that this SOQ is made without prior understanding, agreement, connection, discussion or collusion with any other person, firm or corporation submitting or participating in the submission of a separate SOQ or any officer, employee or agent of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or any public agency of Puerto Rico; and that the undersigned executed this Respondent and Team Members Certificate with full knowledge and understanding of the matters herein contained and was duly authorized to do so.

We further certify that Respondent and Team Members shall not, other than as permitted in the RFQ, attempt to communicate in relation to the RFQ, directly or indirectly, with any representative of the Authority, PREPA, the PPP Committee, AAFAF, the Energy Bureau, the Government, the FOMB or any public agency of Puerto Rico, including any Restricted Parties, or any director, officer, employee, agent, advisor, staff member, counsel, consultant or representative of any of the foregoing, as applicable, for any purpose whatsoever, including for purposes of: (a) commenting on or attempting to influence views on the merits of the Respondent's and Team Members' SOQ, or in relation to their SOQ; (b) influencing, or attempting to influence, the outcome of the RFQ process, or of the competitive selection process, including the review and evaluation of SOQs or the selection of the Qualified Respondents; (c) promoting the Respondent and Team Members or their interests in the Project, including in preference to that of other Respondents or Team Members; (d) commenting on or criticizing aspects of the RFQ, the competitive selection process, or the Project including in a manner which may give the Respondent or its Team Members a competitive or other advantage over other Respondents or their respective Team Members; and (e) criticizing the SOQs of other Respondents.

To the extent the Authority and PREPA determine to submit any of the costs incurred under the PPP Contract for federal reimbursement, the Respondent shall be required to comply with all applicable federal certification and requirements.

Federal regulations restrict PREPA from contracting with parties that are debarred, suspended or otherwise excluded from or ineligible for participation in federal assistance programs and activities, where the contract is funded in whole or in part with federal funds. The Respondent certifies that:

1. Neither it nor any of its principals (defined at 2 C.F.R. § 180.995), or its affiliates (defined at 2 C.F.R. § 180.905), are excluded (defined at 2 C.F.R. § 180.940) or disqualified (defined at 2 C.F.R. § 180.935) from participation in this transaction by any federal department or agency. SAM Exclusions is the list

Case:17-04780-LTS Doc#:1427 Filed:07/02/19 Entered:07/02/19 23:25:28 Desc: Main Document Page 45 of 47

maintained by the General Services Administration that contains the name of parties excluded or disqualified, as well as parties declared ineligible under certain statutory or regulatory authority. The Respondent may verify its status and the status of its principals, affiliates and any actual or anticipated Team Members at www.SAM.gov.

2. The Respondent agrees to comply with the requirements of 2 C.F.R. pt. 180, subpart C and 2 C.F.R. pt. 3000, subpart C while this proposal is valid and throughout the period of any contract that may arise from this proposal. The Respondent further agrees to include a provision requiring such compliance in its lower tier covered transactions.

3. This certification is a material representation of fact relied upon by the Authority and PREPA. If it is later determined that the Respondent did not comply with 2 C.F.R. pt. 180, subpart C and 2 C.F.R. pt. 3000, subpart C, in addition to remedies available to the Authority and PREPA, the federal government may pursue available remedies, including but not limited to suspension and/or debarment.

The Respondent further certifies, to the best of its knowledge and belief, that:

1. No federal appropriated funds have been paid or will be paid, by or on behalf of the Respondent or any Team Member, to any person for influencing or attempting to influence an officer or employee of an agency, a member of the United State Congress, an officer or employee of the United States Congress or an employee of a member of the United States Congress in connection with the awarding of any federal contract, the making of any federal grant, the making of any federal loan, the entering into of any cooperative agreement and the extension, continuation, renewal, amendment or modification of any federal contract, grant, loan or cooperative agreement.

2. If any funds other than federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a member of the United States Congress, an officer or employee of the United States Congress or an employee of a member of the United States Congress in connection with this federal contract, grant, loan or cooperative agreement, the undersigned shall complete and submit Standard Form- LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

3. The undersigned shall require that the language of this certification be included in the award documents for all sub-awards at all tiers (including subcontracts, sub-grants and contracts under grants, loans and cooperative agreements) and that all sub-recipients shall certify and disclose accordingly.

4. This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by 31, U.S.C. § 1352 (as amended by the Lobbying Disclosure Act of 1995). Any person who fails to file the required certification shall be subject to a civil penalty of not less than $10,000 and not more than $100,000 for each such failure.

The undersigned Respondent and Team Members acknowledge that any violation or misrepresentation with respect to the above will prohibit their participation in any procurement process under the PPP Act and other applicable laws of Puerto Rico and, therefore, will be disqualified from participating hereunder.

The attached SOQ shall be governed by and construed in all respects according to the laws of Puerto Rico and the terms of the RFQ.

Our business address is:

[Insert business address]

Yours faithfully,

[Insert appropriate signature block for signature by a person duly authorized to bind the Respondent or Team Member]

GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority

APPENDIX B: FORM OF DOCUMENT ACKNOWLEDGEMENT & CONTACT INFORMATION

[Letterhead of the Respondent]

Mr. Omar J. Marrero, Esq. — Executive Director
Puerto Rico Public-Private Partnerships Authority
Puerto Rico Fiscal Agency and Financial Advisory Authority Building, 3rd Floor
Roberto Sánchez Vilella Government Center
De Diego Avenue, Parada 22
San Juan, PR 00940-2001 USA

Ladies and Gentlemen:

I, *[Name of Respondent Representative]* in my capacity as *[Title]* of *[Name of the Respondent]*, acknowledge on behalf of the Respondent and each Team Member that the Respondent (for itself and each anticipated Team Member) was able to access the Puerto Rico Public-Private Partnerships Authority (the "Authority") web site and downloaded the following documents regarding the Request for Qualifications ("RFQ") for the Puerto Rico Electric Power T&D System PPP (the "Project"), issued by the Authority on October 31, 2018. Our contact information for further notifications is included below. We accept the transmission of such additional notifications via electronic communications, but acknowledge and accept that we shall have the responsibility of periodically checking in the Public-Private Partnership Authority website (http://www.p3.pr.gov) for any and all official communications regarding the RFQ and other stages of the procurement process for the Project.

Document/File Title	Date Received/Downloaded

Respondent Representative Signature

Date

Contact Information: *[Respondent Representative name, title, company, address, electronic mail, telephone number]*

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of THE COMMONWEALTH OF PUERTO RICO, *et al.* Debtors.[1]	PROMESA Title III Case No. 17 BK 3283-LTS (Jointly Administered)
In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, Debtor.	PROMESA Title III Case No. 17 BK 4780-LTS
THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, and PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY, Movants, v. OFFICIAL COMMITTEE OF UNSECURED CREDITORS, *et al.* Respondents.	

[1] The Debtors in these Title III Cases, along with each Debtor's respective Title III case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747). (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations.)

DECLARATION OF NATALIE A. JARESKO IN SUPPORT OF JOINT MOTION OF PUERTO RICO ELECTRIC POWER AUTHORITY AND AAFAF PURSUANT TO BANKRUPTCY CODE SECTIONS 362, 502, 922, AND 928, AND BANKRUPTCY RULES 3012(A)(I) AND 9019 FOR ORDER APPROVING SETTLEMENTS EMBODIED IN RESTRUCTURING SUPPORT AGREEMENT AND TOLLING CERTAIN LIMITATIONS PERIODS, FILED MAY 10, 2019 [ECF NO.1235]

I, Natalie A. Jaresko, hereby declare and state as follows:

1. I am the Executive Director of the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), the representative of the Puerto Rico Electric Power Authority (the "PREPA"), the Commonwealth of Puerto Rico (the "Commonwealth"), the Puerto Rico Sales Tax Financing Corporation, the Puerto Rico Highways and Transportation Authority, and the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, pursuant to section 315(b) of the *Puerto Rico Oversight, Management, and Economic Stability Act* ("PROMESA").

2. I submit this declaration in support of the *Joint Motion of Puerto Rico Electric Power Authority and AAFAF Pursuant to Bankruptcy Rule 9019 for Order Approving Restructuring Support Agreement and Granting Related Relief* (the "9019 Motion"), seeking the approval of the Definitive Restructuring Support Agreement dated as of May 3, 2019 (the "RSA")[2] by and among (i) PREPA, the Oversight Board and AAFAF (the "Government Parties"); and (ii) the ad hoc group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured" and together with the Ad Hoc Group, the "Supporting Holders"). (The Government Parties and the Supporting Holders

[2] Capitalized terms not otherwise defined herein shall have the meanings given to them in the 9019 Motion or in the RSA, as applicable.

are referred to together as the "RSA Parties.") Except as otherwise indicated, I submit this declaration based on my personal knowledge.

My Background

3. I received my Master's Degree in Public Policy from the Harvard University Kennedy School of Government in 1989, and my Bachelor of Science Degree in Accounting from DePaul University in Chicago, Illinois in 1987. From 1989 to 1992, I served in various economic positions at the U.S. Department of State in Washington, D.C. From 1992 to 1995, I served as the Chief of the Economic Section of the U.S. Embassy in Ukraine, where I was responsible for building a new economic relationship between the United States and newly-independent Ukraine.

4. From 2014 to 2016, I served as Minister of Finance of Ukraine. This was one of the most critical times in Ukraine's history, rocked by a deep recession, foreign occupation, and war on part of its territory. During my tenure, I led the successful negotiation and implementation of one of the largest International Monetary Fund programs in the institution's history, as well as a complex sovereign and sovereign-guaranteed debt restructuring.

PROMESA and the Oversight Board

5. On June 30, 2016, President Obama signed PROMESA into law, establishing the Oversight Board pursuant to PROMESA section 101(b). On August 31, 2016, President Obama appointed the Oversight Board's seven voting members. In March 2017, I was named Executive Director of the Oversight Board pursuant to section 103(a) of PROMESA.

6. As Executive Director of the Oversight Board, I am the highest level executive responsible for, among other things, (i) managing and leading the affairs of the Oversight Board (with the exception of the affairs of the Special Claims Committee) under the guidance and

supervision of the Oversight Board; (ii) organizing and participating in the Oversight Board's meetings and other meetings associated with the Oversight Board's business and operations; (iii) coordinating the discussion, development, and certification of the Commonwealth's fiscal plan and fiscal plans of covered territorial instrumentalities, including PREPA, as well as the analysis and certification process of annual budgets of the Commonwealth and the covered territorial instrumentalities; and (iv) assisting and participating, as required, in voluntary negotiations, creditor collective actions, and debt restructuring processes of the Commonwealth and the covered territorial instrumentalities.

7. I am in regular communication with the members of the Oversight Board and its counsel, financial advisors, and consultants. The Oversight Board's legal advisor is Proskauer Rose LLP ("Proskauer") and, in connection with the matters set forth herein, its primary financial advisor is Citibank Global Markets Inc. ("Citi").

8. I also regularly consult with Christian Sobrino, the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"). Along with Mr. Sobrino, I co-head PREPA's Transformation Supervisory Committee (the "Transformation Committee"). The Transformation Committee is the vehicle through which the Oversight Board and AAFAF provide input to the Puerto Rico Public-Private Partnerships Authority ("P3 Authority"), which is managing the modernization of Puerto Rico's electric generation and transmission system by overseeing a process to select a private proponent (an "Operator") to enter into an agreement to manage and operate PREPA's energy distribution and transmissions system ("Transformation").

9. As reflected in its Fiscal Plan for PREPA certified on June 27, 2019, the Oversight Board views Transformation to be a key goal for PREPA and its ability to provide stable and affordable electricity to the people and businesses of Puerto Rico.[3]

10. I participated in the Oversight Board's internal discussions with respect to the RSA and with the Oversight Board's financial and legal advisors. These discussions, which proceeded over the course of more than one year, led to the Oversight Board's decision to approve the RSA and authorize me to sign it, as reflected in the Unanimous Written Consent, dated May 3, 2019.[4]

11. With respect to negotiations with bondholders, the Oversight Board's negotiation team was led by David Brownstein, Citi's Managing Director and Head of Municipal Banking at Citigroup Global Markets Inc., along with Proskauer. The Oversight Board's team worked closely with O'Melveny & Myers LLP and Ankura Consulting LLC, who represented AAFAF and PREPA in the negotiations. Over the course of many months of negotiations, Mr. Brownstein and his team and Proskauer provided the Oversight Board and me with regular updates. This included multiple presentations, in person strategy meetings, weekly Board calls, and calls with individual Board members regarding the RSA negotiations, terms, strategy, and progress on achieving the Oversight Board's key goals (addressed below).

12. The material financial terms of the RSA were contained in the Preliminary RSA, approved by the Oversight Board in July 2018. In connection with the Board's deliberations

[3] *See 2019 Fiscal Plan for the Puerto Rico Electric Power Authority* ("2019 Fiscal Plan"), at 11-28, annexed as Exhibit A.
[4] *See Unanimous Written Consent approving Execution of Definitive Restructuring support Agreement of Puerto Rico Electric Power Authority*, available at https://oversightboard.pr.gov/documents/, FOMB-PREPA RSA-20190503, 03 May, 2019.

resulting in approval of the Preliminary RSA, Citi presented to the Oversight Board detailed financial analyses regarding the Securitization Bond structure under various scenarios.[5]

13. Based upon my personal involvement in the negotiations leading to the RSA, including communications with the Oversight Board's financial advisors, the RSA is the product of good faith and arms-length negotiations among the RSA Parties.[6] I believe the settlement embodied in the RSA represents a reasonable outcome that achieves the Oversight Board's objectives for PREPA's future, inclusive of capping an increase in electricity rates, eliminating default risk for PREPA, transferring demand risk from rate-payers and PREPA to the creditors, and discounting the PREPA debt by more than $2 billion. That is the basis on which the Oversight Board approved it.

Summary: The RSA Is a Reasonable Settlement from the Oversight Board's Perspective

14. In sum, the RSA constitutes a settlement with holders and insurers of approximately 72%[7] of the outstanding PREPA Bonds—the Supporting Holders—that reduces their claims, provides meaningful certainty as to future electricity rates, ends litigation seeking to place PREPA into receivership, and binds Supporting Holders to support a plan of adjustment for PREPA ("Plan of Adjustment" or "Plan") that is consistent with the RSA.[8] In contrast to the terms of the legacy debt being restructured, the RSA protects PREPA rate payers from the threat

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[5] Mr. Brownstein is submitting a declaration in support of the 9019 Motion, to which I refer below. *See* Declaration of David Brownstein, sworn to July 2, 2019 ("Brownstein Decl." or "Brownstein Declaration").
[6] *See also* Brownstein Decl. ¶¶ 16-17.
[7] This percentage does not include Syncora, with whom the Government Parties have an agreement in principle to join the RSA, or National, with whom negotiations are productively proceeding. If both join the RSA, it will have the acceptance of over 90% of holders or insurers of PREPA's bonds.
[8] I understand the plan confirmation provisions of PROMESA require, among other things, that if not all classes of claims vote to accept the plan, at least one impaired class of non-insider creditors votes to accept the Plan. This RSA and the Supporting Holders' obligation to vote for a Plan consistent with the RSA provide significant support in satisfying this confirmation requirement. As a result, the RSA is an important step for restructuring PREPA's debt and emerging from PREPA Title III.

of material and unrestrained electricity rate increases if, for whatever reason, PREPA's revenues are insufficient to cover debt service. Indeed, the RSA, unlike the Trust Agreement, contains no "rate covenant." It further protects PREPA from the threat of sliding back into Title III if it is unable to cover its debt service obligations.[9] There is no receivership remedy. These benefits accruing to PREPA from the RSA reduce risk to PREPA's future and will also help facilitate Transformation, discussed below and in the accompanying declarations of Christian Sobrino and of Fred Chapados, who leads the Transformation effort on behalf of Citi and PREPA.[10]

15. In exchange for these substantial benefits to PREPA and its stakeholders, the RSA would allow Supporting Holders' allegedly secured claims in a discounted amount, and provides the agreement of the Supporting Holders to accept Securitization Bonds serviced by a fixed "Transition Charge" on account of their bond claims under a future plan of adjustment.[11]

16. The RSA also provides for certain consideration to Supporting Holders in exchange for their forbearance from pursuing various remedies since the predecessor agreement was signed on July 30, 2018, and given that they have not received any principal or interest payments since PREPA entered Title III. Significantly, however, all the consideration still leaves the Supporting Holders with a large discount to their original claims. The delay in consummation of the exchange will continue into 2020, since the RSA will not be implemented until PREPA's Plan is confirmed, which must await completion of the Transformation process. Accordingly, as explained by Mr. Brownstein,[12] to compensate Supporting Holders for the

[9] The material elements of the RSA are summarized in the 9019 Motion, ¶ 41.
[10] *See* Declaration of Fred Chapados, sworn to July 2, 2019 ("Chapados Decl." or "Chapados Declaration").
[11] The Transition Charge is a capped fee paid by electricity customers. *See below* ¶¶ 25-27; 9019 Motion at pp. 19-20; Brownstein Decl. ¶ 41.
[12] *Id.*¶¶ 36, 58, 60-67.

economic impact of the delay in implementing the RSA, the settlement provides for allowance and accrual of Administrative Claims, Waiver and Support fees, and Settlement Payments.

17. All of these factors, working together, support the conclusion that the terms of the RSA for which the Court's approval is sought are fair, reasonable, and in the best interests of PREPA and its stakeholders.[13]

I. The Oversight Board's Goals in Negotiating the RSA

18. In commencing PREPA's Title III case in July 2017, the Oversight Board was keenly focused on the need to restructure the utility's $8.259 billion in obligations to its bondholders outstanding as of the Petition Date, representing over two-thirds of PREPA's total outstanding debt. The Oversight Board deemed the restructuring of legacy bond debt as essential to PREPA's ultimate ability to confirm a plan and emerge from Title III.

19. The Oversight Board's key goals for restructuring PREPA's bond debt included:

a. Reducing PREPA's legacy debt obligations;

b. Insulating PREPA's rate payers from unknown and unlimited potential future rate increases;

c. Avoiding the prospect of PREPA re-entering Title III in the future;

d. Eliminating the receivership remedy and the corresponding risks if a court were to permit the remedy to be exercised between now and plan consummation; and

e. Establishing certainty regarding PREPA's future financial obligations and resolving outstanding Title III litigation, thereby paving the way to Plan confirmation and Transformation.

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[13] *See* 9019 Motion ¶ 42; Brownstein Decl. ¶¶ 68-71; Declaration of Christian Sobrino, sworn to July 1, 2019, ¶ 24.

Case:17-04780-LTS Doc#:1426 Filed:07/02/19 Entered:07/02/19 23:24:35 Desc: Main Document Page 9 of 142

20. The Oversight Board achieved these essential goals in a preliminary restructuring support agreement (the "Preliminary RSA"), entered into with the Ad Hoc Group as of July 30, 2018. The Preliminary RSA provided the core terms for the RSA in May 2019, which added one of the monoline insurers (Assured) as a signatory. Following the filing of the 9019 Motion on May 10, 2019, seeking approval of the RSA, Syncora Guaranty Corp. ("Syncora") reached an agreement in principle with the RSA Parties to join the RSA, and productive discussions with National Public Finance Guarantee Corporation ("National") are continuing. As noted, if Syncora and National join the RSA, holders or insurers of 90% of PREPA bonds will have signed on to the RSA.

21. As a result of additional uninsured bondholders having joined the RSA since its original execution on May 3, 2019, the threshold percentages of holders required to join the RSA in order for it to become effective have been satisfied. *See* RSA § 1(lxxxv). The Oversight Board is hopeful the RSA will help build momentum for other PREPA creditors to settle their claims and facilitate confirmation of PREPA's Plan of Adjustment and its exit from Title III.

22. Reducing PREPA's indebtedness to its bondholders is a component of a broader range of interdependent initiatives designed to pave the way to Plan confirmation and Transformation. The RSA contains a number of elements designed to ensure certainty and predictability with respect to future electricity rates and protect the island's businesses and residents from the risks of unrestrained rate increases if future revenues are inadequate to cover ongoing debt service. In assessing the reasonableness of the RSA, the Oversight Board took all these factors into account in exercising its judgment that the RSA constitutes a reasonable settlement of Supporting Holder claims.[14] Further, in weighing the risks and benefits of the

[14] *See* Brownstein Decl. ¶¶ 30, 68.

Case:17-03283-LTS Doc#:8412-3 Filed:08/08/19 Entered:08/08/19 16:43:00 Desc: Exhibit B Page 88 of 231

settlement embodied in the RSA, the Oversight Board sought and carefully considered advice from its legal counsel regarding litigation risks, costs and possible delays.

A. Reduction of Indebtedness

23. Under the RSA, Supporting Holders agree to accept a reduction in the amount of their secured claims and additional risk concerning payment in the future.[15] More particularly, and as described in the 9019 Motion[16] and the Brownstein Declaration,[17] the RSA provides that in exchange for their existing holdings, Supporting Holders will receive "Securitization Bonds;" *i.e.*, "Tranche A Bonds" in principal amount equal to 67.5% of their "Applicable Bond Claims,"[18] and "Tranche B Bonds" in principal amount equal to 10% of total Applicable Bond Claims. Notably, Tranche A Bonds provide payment of interest and principal only to the extent the Transition Charge collected is sufficient to pay first interest, and then principal. While the Tranche A Bonds are due to mature in 40 years, the bond issuer`s inability to pay in full at maturity will not result in any rights or remedies in favor of the bondholders – the bonds will simply remain outstanding until paid off from Transition Charges revenues. As for Tranche B Bonds, no payments will be made until Tranche A Bonds are paid in full and will cease after the Tranche B Bonds mature. Interest and principal on the Tranche B Bonds will be paid only to the extent the Transition Charge collected is sufficient to make such payments. Importantly, if the Tranche B bonds are not paid in full at maturity, they will nonetheless be cancelled with no further obligation. As described below, failure to make payments when due on the Securitization

[15] Although the August 2018 certified PREPA Fiscal Plan excluded any charges for legacy debt, the Oversight Board recognized that it must account for this obligation in order to proceed to Plan confirmation. The 2019 Fiscal Plan reflects the RSA's Transition Charge in the five-year electricity rate projection. 2019 Fiscal Plan at 67.
[16] *See* 9019 Motion at pp. 7-8.
[17] *See* Brownstein Decl. ¶ 34.
[18] Calculated as the total of (x) the principal amount of the bonds held or insured by such holder plus (y) an additional amount equal to interest that would have accrued on such principal amount through May 1, 2019. RSA § 1(a)(xv). The amount of principal and interest to May 1, 2019 was $9,300,344,424. *See* Brownstein Decl. Table 2.

Bonds does not cause any increase in the Transition Charge or in interest rates on the Securitization Bonds. Nor will it result in the exercise of remedies, or force PREPA back into Title III. In fact, the utility itself is not the issuer of the securitization bonds. They will be issued by a new special purpose securitization entity, the sole purpose of which is to issue the bonds, receive Transition Charge revenue, and make payments. PREPA itself will not be issuing any new debt in satisfaction of the old bonds.

24. The RSA thus effects a consensual and significant impairment of the Supporting Holders' Claims in terms of the amount of the indebtedness eliminates any uncertainty as to PREPA's future obligations to Supporting Holders.

B. Insulating Puerto Rico from Uncapped Electricity Rate Increases

25. One of the Oversight Board's primary goals in structuring the RSA was to insulate PREPA and its rate payers from rate increases in case PREPA is unable to make future debt service payments because of either a faltering economy, improvements in technology that reduce power usage, or other factors resulting in reduced electricity demand. As is the norm in issuance of public debt, the Trust Agreement governing PREPA's outstanding bonds contains a "rate covenant," requiring PREPA (outside Title III) to increase electricity rates if revenues are insufficient to meet operating expenses and annual debt service requirements. In restructuring PREPA's bond debt, the Oversight Board sought successfully to eliminate this otherwise standard covenant.[19]

26. The Securitization Bonds that, under the RSA, replace the outstanding PREPA bonds, do not have a rate covenant or similar "true up" mechanism. Thus, unlike the legacy bonds, the replacement instruments will prevent electricity rates from increasing *even if*

[19] *See* Brownstein Decl. ¶¶ 45-47.

PREPA's revenues are insufficient to cover debt service. Instead, the RSA militates against unknown and uncertain potential rate increases by establishing a securitization structure by means of the fixed and predictable Transition Charge that increases gradually from 2.768 c/kWh for the first five years to a maximum of 4.552 c/kWh from fiscal year 2043 onwards. The Transition Charge is not a floating charge and does not vary based on demand or any downturn in the Commonwealth's economy, or even the need to make debt service payments.[20] This results in holders of Securitization Bonds – not rate payers – assuming the risk of low demand, and insulates PREPA and the Commonwealth's residents and businesses from wide swings in the cost of electricity on the basis of unforeseen macroeconomic conditions or technological developments (including advances in generation through renewable energy sources).[21]

27. Under the RSA holders of Securitization Bonds cannot declare a payment default if the Transition Charge is not sufficient to pay debt service. Even if the issuer of the new Securitization Bonds (which will not be PREPA) does not make scheduled debt service payments to holders of Securitization Bonds, neither PREPA, its Transformation successor, nor the securitization vehicle/issuer will be in default. Holders of the Securitization Bonds will not be able to invoke a rate covenant (as there will not be any rate covenant), seek receivership (there will be no receiver remedy), or seek other default remedies. As a consequence, PREPA will not be faced with the prospect of re-entering Title III as a result of its legacy bond debt or the provisions of the RSA by which the RSA Parties have agreed to resolve their disputes. This is a substantial benefit to PREPA and its stakeholders, representing a material improvement over the

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[20] The Transition Charge is subject to adjustment under certain scenarios in the event certain categories of PREPA's customers fail to pay their power bills in full. *See* Brownstein Decl. ¶ 44. Any such adjustment is not tied to power demand.

[21] *See id.* ¶ 47.

Case:17-04780-LTS Doc#:1426 Filed:07/02/19 Entered:07/02/19 23:24:35 Desc: Main Document Page 13 of 142

terms of the Trust Agreement that provide none of these protections and leave open the possibility of the now precluded remedies.

C. Litigation Risk

28. The RSA establishes another element of certainty: avoidance of litigation risk. The record demonstrates that the Ad Hoc Group, and later the monolines, have litigated aggressively against PREPA, including with respect to receivership, loan from the Commonwealth and appointment of a chief transformation officer. Absent a settlement, we could expect a challenge to PREPA's Plan of Adjustment. The RSA, if approved, ends the prospect of continuing litigation on a number of fronts.

29. As discussed above and in the Government Parties' accompanying memorandum of law, the RSA eliminates the risk that Supporting Holders will be successful in establishing they are oversecured and entitled to 100% payment of interest, principal, plus fees. However weak this claim may be in the view of the Oversight Board, Supporting Bondholders have advanced it aggressively and, even if rejected by the Court, it is expected the decision would be appealed resulting in further risk, litigation cost and delay, all of which is vitiated by the settlement.[22] The Oversight Board has concluded that the RSA's elimination of this risk with respect to the Supporting Bondholders, along with the other benefits afforded by the RSA, is a significant benefit and supports the reasonableness of the RSA.

30. Additionally, the RSA, if approved by the Court, disposes of the monoline insurers' motion to lift the automatic stay, which they filed to permit them to move in Commonwealth court for appointment of a receiver over PREPA (the "Receiver Motion"). In October 2018, the monolines sought stay relief (for the second time), claiming they had the right

[22] *See* Supplemental Memorandum of Law at pp. 35-37.

to invoke the receiver covenant under the Trust Agreement to appoint a receiver. The monolines claimed PREPA continues its pattern of historic mismanagement that resulted in its financial collapse and that would make it impossible for PREPA to pursue Transformation successfully. While the Government Parties have opposed the Receiver Motion, its outcome cannot be predicted with certainty.

31. As explained by Mr. Sobrino and Mr. Chapados, receivership – both the threat and potential reality – is out of step with Transformation.[23] That is particularly the case here where the monolines seek to appoint a receiver of unknown identity, power and authority, duration, and independence.

32. I understand the RSA will dispose of the Receivership Motion. I am advised that Assured's withdrawal leaves the movants with insufficient holdings in PREPA Bonds to maintain the lift stay motion under Section 808 of the Trust Agreement.[24] Moreover, I understand that if Syncora and National join the RSA and the Court approves the RSA, the monolines will be obligated to withdraw the motion, bringing the Receiver Motion and its risk to Transformation to an end.

33. As Executive Director of the Oversight Board, I became familiar with the issues concerning the amount and enforceability of the bondholders' alleged liens and the issues and risks posed by the Receivership Motion (addressed in the Government Parties' accompanying memorandum of law). In determining whether the settlement of the Supporting Holders' claims under the RSA fit within the "goal posts" of reasonable outcomes without the settlement, I was cognizant we would have to "run the board," and be successful in the lien challenge, receivership

[23] *See* Chapados Decl. ¶¶ 24-25; *see generally* Sobrino Decl.
[24] *See* Motion to Dismiss Receivership Motion [ECF No. 1233].

litigation, and opposition by the bondholders to confirmation of an alternative Title III plan to realize – and not undermine – the goals identified by the Oversight Board in negotiating the RSA (*see* above, ¶¶ 18-19). Although, based on my consideration of these matters in consultation with Proskauer and Citi I concluded the Government Parties had strong litigation positions, I concluded that success could not be guaranteed and that an adverse litigation result would undermine PREPA and its Transformation. I therefore concluded that, taking all of these considerations in to account, the RSA constituted a fair and reasonable compromise of the Supporting Holders' claims. I so advised the Oversight Board, which also took advice from our counsel and advisors. The Oversight Board concluded that the RSA was a reasonable compromise and approved it.

II. The Interplay Between the RSA and Transformation

34. PREPA's Plan of Adjustment (with the required accompanying disclosure statement) likely cannot be presented to the Court for approval until the P3 Authority has selected a Transformation Operator and is ready to submit certain components of the Operator's contract to the Court in connection with confirming a Plan of Adjustment.[25] The RSA is designed to address the interplay between confirmation and Transformation.

35. As a result of the delay in seeking confirmation of a Plan due to the time required to complete the Transformation process, the RSA is structured to preserve the deal reached in the Preliminary RSA in July 2018, while providing the P3 Authority with sufficient runway to move the Transformation process to fruition in connection with Plan confirmation. During this delay,

[25] *See Request for Qualifications, Puerto Rico Electric Power Transmission and Distribution System,* Oct. 31, 2018, at 11, quoted in Chapados Decl. ¶19 and annexed as Exhibit A thereto.

the Supporting Holders have committed to forbearing from exercising any remedies against PREPA.

36. The consideration provided to Supporting Holders in this connection, as described by Mr. Brownstein in his accompanying declaration (¶¶ 36, 58), is the result of a complicated, arms-length bargaining process, in which Supporting Holders asserted their claimed rights to timely payments for their secured claims, even as discounted under the Preliminary RSA, and the Government Parties insisted that approval of the settlement in conjunction with Plan confirmation could not occur until the Transformation process had advanced to the approval stage. The payments are the result of the arms' length bargaining process and still imposes a substantial discount on Supporting Holders' claim and eliminates their Title III litigation.

37. As noted above (n.15), the 2019 Fiscal Plan for PREPA incorporates the economics of the RSA (including the addition of the Transition Charge to the rate projections) in providing for a sustainable level of debt service. Notably, over the five-year period covered by the Plan, it projects improved electricity demand as compared to the demand projection contained in the August 2018 fiscal plan for PREPA. *See* 2019 Fiscal Plan at 57.

38. In sum, the RSA securitization structure described above provides PREPA and its stakeholders with meaningful benefits. Rather than facing unknown financial risks in the event of a faltering economy, technological advances or other potential causes of reduced electricity demand, the RSA ensures predictability and ceilings with respect to increased electricity rates to service the restructured bond debt. This is important for all aspects of economic activity on the island, and thus is an essential step on the path to Plan confirmation and Transformation.[26]

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[26] Notably, since the hurricanes in September 2017, Puerto Rico has received and will continue to receive billions of dollars of federal emergency assistance, which has increased growth and created an economic cushion, as compared to the pre-hurricane economy.

III. CONCLUSION

39. In my judgment as the Executive Director of the Oversight Board and in the judgment of all members of the Oversight Board, the RSA is a reasonable compromise of the claims asserted by Supporting Holders, and approval of the RSA is in the best interests of PREPA. We have reached this conclusion based on our general knowledge and experience, as well as review of the RSA in connection with the existing circumstances of PREPA and the Commonwealth, and upon the advice and recommendations of the Oversight Board's financial and legal advisors.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: July 2, 2019

Natalie A. Jaresko

Natalie A. Jaresko

EXHIBIT A

Puerto Rico Electric Power Authority

2019 Fiscal Plan for the Puerto Rico Electric Power Authority

As certified by the Financial Oversight and Management Board for Puerto Rico on June 27, 2019

Disclaimer

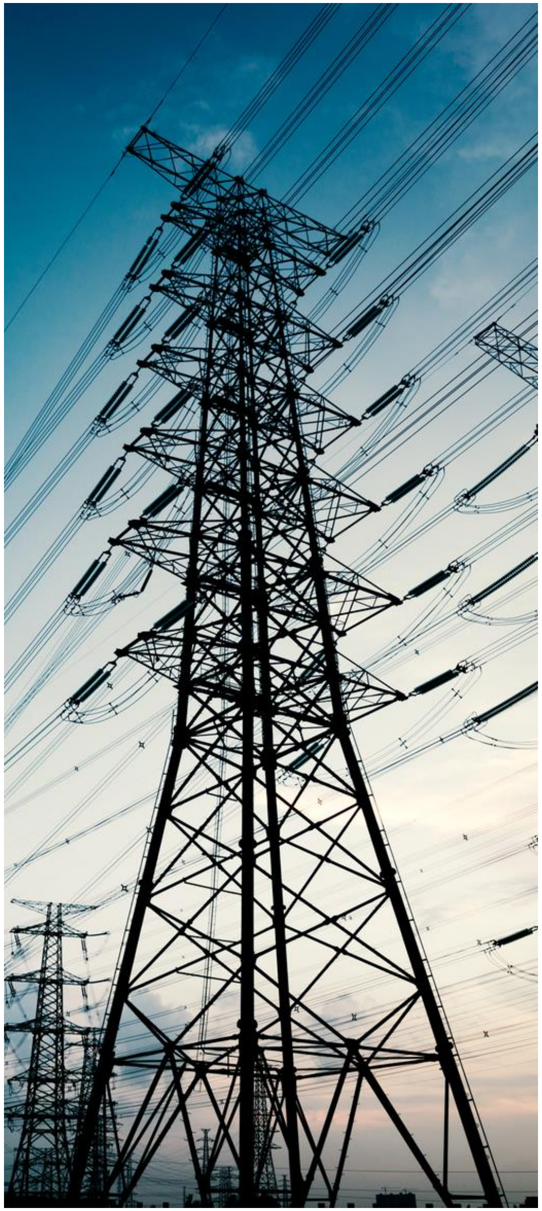
- The Financial Oversight and Management Board for Puerto Rico (the "FOMB," or "Oversight Board") has formulated this June 2019 Fiscal Plan based on, among other things, information obtained from the Puerto Rico Electric Power Authority ("PREPA").
- This document does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants or any other organization. Accordingly, the Oversight Board cannot express an opinion or any other form of assurance on the financial statements or any financial or other information or the internal controls of the Government and the information contained herein.
- This June 2019 Fiscal Plan is directed to the Governor and Legislature of Puerto Rico based on underlying data obtained from PREPA. No representations or warranties, express or implied, are made by the Oversight Board with respect to such information.
- This June 2019 Fiscal Plan is not a Title III plan of adjustment. It does not specify classes of claims and treatments. It neither discharges debts nor extinguishes liens.
- This June 2019 Fiscal Plan is based on what the Oversight Board believes is the best information currently available to it. To the extent the Oversight Board becomes aware of additional information after it certifies this June 2019 Fiscal Plan that the Oversight Board determines warrants a revision of this Fiscal Plan, the Oversight Board will so revise it.
- The Fiscal Plan forms the basis of the corresponding Certified Budget, including full implementation of all revenue and expenditure measures described for that fiscal year, and any investments described in the Fiscal Plan. The Certified Budget must include the same level of specificity as outlined by the FOMB in the budgetary process by budget line-item on sources and uses of funds by fiscal year. The Certified Budget must also provide additional detail on the types of funds used to cover expense categories (e.g., general fund, federal funds, special revenues, own revenues). Finally, the Certified Budget must include additional detail as necessary to track impact of fiscal measure implementation (e.g., pensions, health benefits and Christmas bonus separated from Salary and related benefits, professional services fees, etc.)
- For the avoidance of doubt, the Oversight Board does not consider and has not considered anything in the June 2019 Fiscal Plan as a "recommendation" pursuant to Section 205(a). Nevertheless, to the extent that anything in the June 2019 Fiscal Plan is ever deemed a "recommendation" pursuant to Section 205(a), the Oversight Board hereby adopts it as appropriate in the June 2019 Fiscal Plan pursuant to Section 201(b)(1)(K)
- Any statements and assumptions contained in this document, whether forward-looking or historical, are not guarantees of future performance and involve certain risks, uncertainties, estimates and other assumptions made in this document. The economic and financial condition of the Government and its instrumentalities is affected by various legal, financial, social, economic, environmental, governmental and political factors. These factors can be very complex, may vary from one fiscal year to the next and are frequently the result of actions taken or not taken, not only by the Government, the Oversight Board, and other third-party entities such as the government of the United States. Examples of these factors include, but are not limited to:
  - Any future actions taken or not taken by the United States government related to Medicaid or the Affordable Care Act;
  - The amount and timing of receipt of any distributions from the Federal Emergency Management Agency and private insurance companies to repair damage caused by Hurricanes María and Irma;
  - The amount and timing of receipt of any amounts allocated to Puerto Rico and provided under the Community Disaster Loans Program;
  - The amount and timing of receipt of any additional amounts appropriated by the United States government to address the funding gap described herein;
  - The timeline for completion of the work being done by PREPA to repair its electric system and infrastructure and the impact of any future developments or issues related to PREPA's electric system and infrastructure on Puerto Rico's economic growth;
  - The impact of the measures described herein on outmigration; and
  - The impact of the resolution of any pending litigation in the Title III cases
- Because of the uncertainty and unpredictability of these factors, their impact cannot be included in the assumptions contained in this document. Future events and actual results may differ materially from any estimates, projections, or statements contained herein. Nothing in this document should be considered as an express or implied commitment to do or take, or to refrain from taking, any action by the Oversight Board, the Government, or any instrumentality in the Government or an admission of any fact or future event. Nothing in this document shall be considered a solicitation, recommendation or advice to any person to participate, pursue or support a particular course of action or transaction, to purchase or sell any security, or to make any investment decision.
- By receiving this document, the recipient is deemed to have acknowledged the terms of these limitations. This document may contain capitalized terms that are not defined herein, or may contain terms that are discussed in other documents or that are commonly understood. You should make no assumptions about the meaning of capitalized terms that are not defined, and you should refer questions to the Oversight Board at comments@oversightboard.pr.gov should clarification be required.

Table of Contents

Puerto Rico Electric Power Authority

I. Executive Summary

Executive Summary (1/2)



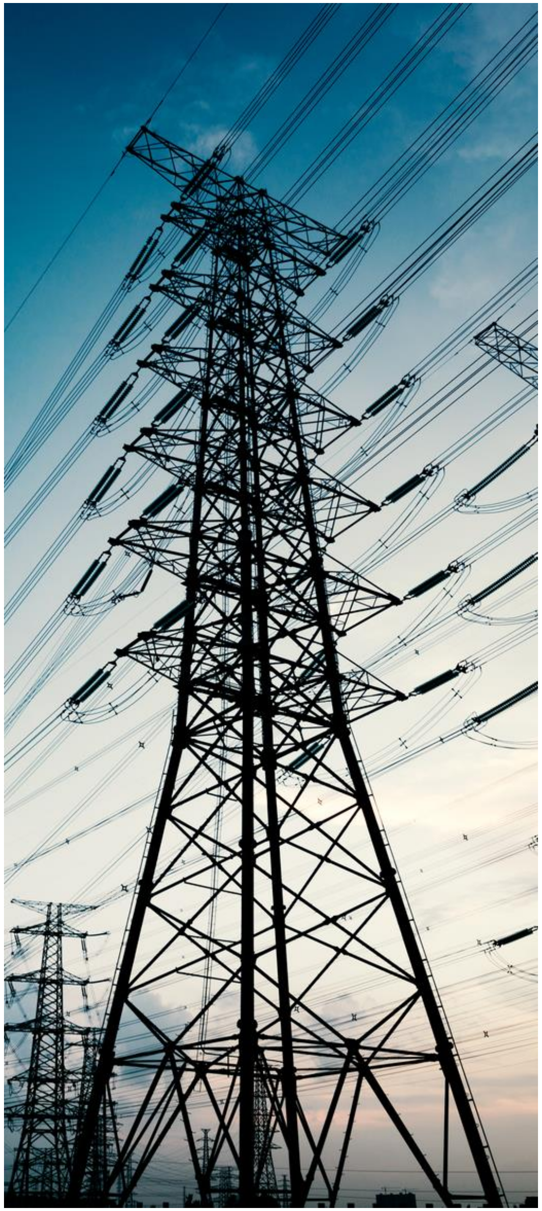
The Puerto Rico Electric Power Authority (PREPA) has historically faced significant financial, operational, and reliability challenges. Macroeconomic trends, including declining population and a stagnant economy, coupled with declining customer demand, have negatively impacted PREPA's revenues over the past 10 years. Hurricanes Irma and Maria caused significant damage to an antiquated and fragile power system that was already struggling to provide Puerto Rico with reliable and affordable power, as evidenced by reliability and safety metrics that stand well below mainland U.S. industry standards. Volatility in fossil fuel prices in past years further adversely impacted affordability on the Island given the system's dependence on fossil fuels. PREPA's fiscal situation is exacerbated by unsustainable debt obligations, which, coupled with its operational challenges, resulted in PREPA filing for protection via voluntary petition under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to better position the utility to implement a comprehensive transformation and debt restructuring.

The August 2018 Fiscal Plan for PREPA put in place the initial framework for a transformation of PREPA and the power sector in Puerto Rico. During FY2019 – its first year of transformation – PREPA has achieved measurable progress in several key areas and is working to implement initiatives and reforms in the near future. This June 2019 Fiscal Plan details the actions taken and to be implemented to become a customer-centric and financially sustainable utility that provides affordable, reliable, resilient services to the citizens of Puerto Rico. Major transformation initiatives include:

- Enactment of the "Puerto Rico Electrical Transformation Act" (Act 120-2018) with the objective of attra**cting and introducing private investment, knowledge and experience** in order to manage and operate PREPA's T&D system and develop **new, modern and clean generation resources.**
- **Completion of system repair and restoration** of damages caused as a results of Hurricanes Irma and Maria through the utilization of available federal funding sources.
- Issuance by the P3 Authority of an **RFP to transfer the operation and management of PREPA's T&D system** to a private operator.

Puerto Rico Electric Power Authority

Executive Summary (2/2)



Implementation of strategic initiatives to **modernize generation fuel mix, reduce fuel cost and price volatility,** and achieve operational efficiencies, including commencement of the conversion of San Juan 5 & 6 units from diesel to natural gas and improving economic dispatch.

Improved fiscal position, **maintained adequate reserve funds**, improved reporting and achieving 12% higher consolidated revenue than budgeted (through March 2019)

Preliminary **development of an Energy Grid Modernization plan**, which includes investments needed to improve grid resilience.

Submittal of a **proposed Integrated Resource Plan (IRP)** (pending PREB approval) that will serve as the planning document for new generation investment by private developers. The IRP includes plans to **transition to more renewables in the generation mix,** primarily in solar photovoltaics and battery storage.

Execution of a Definitive Restructuring Support Agreement (RSA), which provides for **substantial savings** in the recovery of legacy costs associated with the financing of Puerto Rico's electric infrastructure. Restructuring PREPA's legacy debt obligations is a key component of Puerto Rico's energy transformation and its **successful conclusion will pave the way for a resilient, reliable, and affordable energy system.**

To achieve its transformation goals, PREPA must continue to develop and implement the transformation initiatives detailed in the Fiscal Plan across a wide range of issues including, completion of the transaction to transfer the operations and management of PREPA's T&D system to a private operator, investment in generation, transmission and distribution projects consistent with this Fiscal Plan, the IRP and the Energy Grid Modernization Plan, completion of the restructuring of its debt obligations and exiting Title III of PROMESA and further improvement of grid operations through economic dispatch and vegetation management, among other initiatives.

Fiscal Year 2019 Performance Overview

The vision outlined in the August 2018 Fiscal Plan and Budget assisted PREPA in stabilizing liquidity, improving operations and launching privatization efforts

Noteworthy Accomplishments in Fiscal Year 2019

San Juan 5 & 6	• Execution of San Juan 5 & 6 (conversion from diesel to natural gas) contracts after review and analysis of potential expense savings; construction commenced
Launch of P3 for T&D Privatization	• T&D RFQ was issued in October 2018; qualified proponents were announced in January 2019; RFP was issued in early February 2019, together with a proposed term sheet and a due diligence data room; management meetings, site visits, and due diligence are underway
Debt Restructuring	• AAFAF and FOMB announced and published definitive PREPA RSA with Ad Hoc Group of PREPA bondholders and Assured Guaranty on May 3, 2019, with an exchange rate of 67.5% for new Tranche A and 10% for new Tranche B bonds • Definitive RSA represents approximately $3 billion in bonds, representing 51% of bondholders, and 40% in debt reduction over the next ten (10) years; FY2015/16 audited financials issued
Operational Initiatives	• $54M in additional operational savings during FY2019 YTD
Regulatory Framework	• Successful enactment of Act 17-2019 setting forth a regulatory structure based on mainland structures and providing for private investment in the energy system
Liquidity	• PREPA's cash flow remained stable during FY 2019 as cash receipts have generally met operating cash expenditures • $300M Superpriority Post-Petition revolving Credit Loan from Commonwealth of Puerto Rico was repaid in March 2019
Budget to Actuals	• Reporting on FY2019 Budget to Actual and variances prepared on a quarterly basis • FY2019 second quarter Budget to Actual report showed revenue targets were achieved
Restoration Work[1]	• Established dedicated Disaster Funding Management Office in March 2019 • Received an estimated $451M emergency work in reimbursements from Federal Emergency Management Agency in FY2019
IRP	• Submissions of the Integrated Resource Plan submitted to PREB in February and June 2019; regulatory approval underway and IRP still under revision
Independent Engineer Report	• Draft of Independent Engineer Report providing an updated assessment of PREPA's infrastructure submitted to PREPA management for review on April 5, 2019; final version pending publication
Medical Benefit Reform	• Prepared and executed a contract for employee healthcare plans, effective January 1, 2019. New plan for active employees and retirees met planned savings targets for FY2019
Audited Financial Statements	• FY2016 audited financials issued on December 12, 2018

1: PREPA's "Project Worksheet Master Tracker" as of 3/29/19

Puerto Rico Electric Power Authority

The Renewed Vision and Purpose of the June 2019 Fiscal Plan

This June 2019 Fiscal Plan has been developed with a vision to deliver more reliable, cost-effective, and cleaner energy. This includes efforts to complete operational initiatives, transfer operation and management of T&D assets to a private operator, modernize generation resources through private investment, and exit from Title III.

Overarching Goals of the June 2019 Fiscal Plan

- **Strategy**: Ensure overall compliance with the implementation of the Governor's public policy for reforming the Puerto Rico energy sector and Fiscal Plan requirements, including transactions related to T&D and generation operations
- **Pension Sizing:** Incorporate revised pension liability sizing and required funding
- **Integrated Resource Plan (IRP) Results:** Incorporate recommended course of action from latest IRP submission
- **Restructuring Support Agreement (RSA):** Incorporate financial terms from the RSA settlement with creditors and insurers
- **Updated Financial Projections:** Based on recent macroeconomic data, YTD results, FY2020 Budget, the IRP, Energy Grid Modernization Plan (EGM), RSA supporting holders treatment (including 1 c/kWh Settlement Charge, beginning July 1, 2019), and an estimated charge for unfunded pensions liability starting in FY2021

Note: Fiscal year begins in July of the previous calendar year

Puerto Rico Electric Power Authority

Summary of PREPA's Fiscal Plan Development

	April 2017 Fiscal Plan	June 2017 budget certified	Title III filed	Fiscal Plan revisions and amendments	Transformation & August 2018 Fiscal Plan	June 2019 Fiscal Plan Certified	Exit from Title III (Plan of Adjustment)
Timeline	*April 28, 2017*	*June 30, 2017*	*July 2, 2017*	*July – Sep 2017*	*Oct 2017 – Aug 2018*	*Sep 2018 – June 2019*	*TBD, 2019 – 2020*
Detail	▪ Financial Oversight and Management Board for Puerto Rico (FOMB) certified PREPA Fiscal Plan for FY2017–2026; amendments included achieving an aspirational 21 cent per kWh rate by 2023 ▪ New and revised operational initiatives and an outline for regulatory reform	▪ PREPA submitted its FY2018 budget, which the FOMB approved and certified, subject to reconciling and agreeing to their requirements for a revised Fiscal Plan with amendments	▪ FOMB filed a voluntary petition under Title III of The Puerto Rico Oversight, Management, and Economic Stability Act in the United States District Court for the District of Puerto Rico	▪ PREPA continued to implement and revise its FY2018 Fiscal Plan in close coordination with the FOMB ▪ Working team established to develop operational and regulatory transformation plan ▪ Impact of hurricanes Irma and Maria delayed and affected fiscal plan implementation assumptions and objectives	▪ Governor announces new energy sector public policy ▪ The FOMB established revised dead-lines (April 2018) to submit an amended Fiscal Plan based on certain principles set forth in letter on December 12, 2017, updated macro assumptions, and other data ▪ Following revisions to the Commonwealth Fiscal Plan and progress on the PREPA budget, the Fiscal Plan was further revised and certified on August 1, 2018	▪ Fiscal Plan implementation and reporting continues ▪ Energy sector transformation process launched and underway ▪ Initial IRP report submitted to PREB, Feb. 2019, revisions requested and underway March – May 2019 ▪ Definitive RSA reached with Ad Hoc group of bondholders and Assured ▪ Draft and certify Fiscal Plan and Budget for FY2020	▪ Selection of T&D Operator and signing of The Puerto Rico Public – Private Partnerships Authority (P3) Agreement ▪ Determination of amount and terms of federal funds to support reconstruction of energy infrastructure ▪ Integration of results from operational and strategic improvement initiatives and IRP approval ▪ Plan of adjustment contemplating transfer of certain PREPA assets approved by the Federal District Court

Puerto Rico Electric Power Authority

Implementation of the PREPA Fiscal Plan

The implementation of the Energy Sector Transformation has required the leadership and collaboration of the following government entities that are broadly aligned on the need for transformation of the Puerto Rico Energy Sector

- Government of Puerto Rico
- Puerto Rico Energy Bureau (PREB)
- Puerto Rico Electric Power Authority (PREPA)
- Fiscal Agency and Financial Advisory Authority (AAFAF)
- Puerto Rico Public-Private Partnership (P3)
- Financial Oversight and Management Board (FOMB)

II. Transformation

Energy System's Near-Term and Long-Term Challenges

	Near-term (next 5 years)	Long-term (beyond 5 years)
Improving reliability and resiliency	▪ Executing critical maintenance projects in the near-term to improve reliability and resiliency ▪ Modernizing and hardening the grid to deliver short term savings targets	▪ Modernizing and hardening the grid to ensure long term resiliency ▪ Delivering reliability and power quality (voltage and frequency) at levels closer to median or top quartile utility players
Improving affordability and customer experience	▪ Ensuring rates stay at an affordable level by reducing O&M costs, reducing fuel costs, and achieving operational efficiencies ▪ Improve customer outreach and satisfaction	▪ Maintaining affordable rates, despite anticipated declining load ▪ Meeting new customer expectations (e.g. faster and more streamlined process for connecting DG)
Improving safety and security	▪ Improving employee and public safety performance every day to standards closer to other peer utilities	▪ Increasing the use of technology to protect employees and the public every day ▪ Implementing new cybersecurity initiatives
Implementation of investment plans	▪ Implementing near-term generation procurement and T&D modernization plans	▪ Implementing longer-term capacity restructuring plan for generation ▪ Investing in a modern, resilient grid
Meeting policy goals	▪ Increasing use of natural gas and renewable generation	▪ Meeting the 100% renewables target by 2050 ▪ Setting up a fair market structure for wholesale and retail power
Maintaining responsible fiscal management	▪ Ensuring adequate liquidity in daily operations and legacy debt service ▪ Delivering consistently against capital and operating expense budgets ▪ Maintaining oversight and accountability to ensure robust near-term and long-term fiscal sustainability	▪ Continue working to achieve incremental savings and lowest possible rates

Puerto Rico Electric Power Authority

Energy Sector Transformation Overview

The Fiscal Plan sets forth a path to execute on the Governor's vision for energy sector transformation

Background

- In the aftermath of Hurricane Maria, on January 22, 2018, Governor Ricardo Rosselló outlined a vision for the transformation of the energy sector, setting forth the need for an energy sector that is customer-centric, reliable, resilient, cost efficient, while meeting environmental, regulatory, and statutory constraints and requirements
- To achieve this vision, Governor Rosselló mandated that the Government leverage private sector management and organizational expertise. This will be enacted through the execution of a transparent and competitively procured public-private partnership for operating and managing of the T&D system and a separate process for the privatization of the generation system

The Path to Transformation

- Governor Rosselló has taken affirmative steps to implement his vision for energy sector transformation, including but not limited to the following:

June 5, 2018,
Launched the P3 process for the procurement of a private operator for the T&D system

June 20, 2018,
Approved the Puerto Rico Electric System Transformation Act, Act No. 120-2018 to provide the legal authority and mechanism for the sale or transfer of PREPA assets related to generation and for the establishment of public private partnerships ("P3") with respect to any function, service or facility of PREPA, including the T&D system

April 11, 2019,
Approved the Puerto Rico Energy Policy Act, Act No. 17-2019, which establishes a regulatory framework to attract private investment, as well as providing for regulatory oversight over the future private T&D Operator and other private energy market participants

PREPA's efforts are consistent with the Governor's policy. In collaboration with AAFAF and the P3 Agreement (P3A), PREPA is running on schedule and complying with the established T&D transaction timeline announced in October 2018

Puerto Rico Electric Power Authority

The Objectives of Puerto Rico's Energy Sector Transformation

Following the Governor's Vision, PREPA's June 2019 Fiscal Plan is predicated on the implementation of an Energy Sector Transformation, leveraging private sector capital and operational expertise, to achieve the following objectives:

CUSTOMER-CENTRIC

- Enable residents to choose how to best address their energy needs
- Enable consumers to become prosumers[1]
- Increase customer engagement

AFFORDABLE

- Improve the cost of electric service to all customers
- Improve operational efficiency and financial stability

RELIABLE

- Establish best-in-class reliability of electric service, which is essential for customer well-being and economic development
- Establish best-in-class power quality that meets growing customer needs

RESILIENT

- Maintain ability to adequately withstand catastrophic natural events and other adverse conditions
- Continuously improve emergency preparedness capability

SUSTAINABLE

- Train and engage workforce with a strong safety culture
- Exact transparent regulatory framework
- Pioneer environmental leadership
- Drive economy and customer well-being

1 A prosumer is a person or legal entity who consumes and produces a product (e.g. a consumer using residential solar for partial electricity consumption)

Puerto Rico Electric Power Authority

Energy Sector Vision – Current and Future State

The vision for a future state industry structure creates a new "GridCo" for non-generation functions that will be operated and managed by a privately owned utility service provider.

Current State

Puerto Rico Energy Bureau (PREB)

Existing Private Generation
- AES
- EcoElectrica
- Renewables

PREPA

Vertically Integrated Public Utility Company

Future State

Puerto Rico Energy Bureau (PREB)

Existing Private Generation
- AES
- EcoElectrica
- Renewables

Divested PREPA Generation
- San Juan
- Costa Sur
- Palo Seco
- Aguirre
- Others

New "GridCo"
Privately Owned and Managed Service Provider
- Dispatch Operations
- Transmission & Distribution
- Customer Service
- Environmental, Planning and Administrative

New P3 Generation / Storage
- Generation
- Storage
- Microgrids

Role of PREB:
- Approve Rates, IRP, and Capital Planning
- PPA Review and Oversight over Energy Companies
- Energy Policy Implementation

Role of GridCo:
- Operation and maintenance of the T&D assets & system, street lights, and meters;
- Control center operations, generation scheduling, and economic system dispatch;
- Integration of renewable generation and distributed energy resources;
- Power procurement;
- End-customer metering, billing, collections service, support, new service interconnection
- Outage management, restoration, coordination of emergency planning and storm recovery;
- Regulatory and environmental compliance;
- Delivery of grid capital expenditures and deployment of federal funding across system

Role of P3A:
- P3 process will be followed for new generation and storage facilities consistent with the IRP
- P3A will serve as contract manager/administrator consistent with P3 Act

Puerto Rico Electric Power Authority

List of Current Targeted System Improvements

Generation	• Significantly expand the development of private sector renewables and efficient natural gas-fired facilities • Right-size generation fleet, retiring old and inefficient units • Baseload facility repairs and enhancements • Use of proven energy storage, distributed energy, and MiniGrid/microgrid technologies
T&D	• Reconstruct and upgrade T&D infrastructure to modern best-in-class codes and standards • Leverage and maximize federal funding to design a system capable of withstanding and quickly recover from a catastrophic natural event • Introduce smart meters to limit technical and non-technical energy losses and better serve customers • Implement a robust vegetation management program • Implement a system of MiniGrids throughout the island that can be operated independently in times of need
Operational and Customer Service	• Operational metrics in-line with mainland U.S. utilities • Streamline operational costs • Implement a strong safety culture • Introduce customer e-billing, and outsourcing of the customer call center • Improve customer service to better serve customers

Puerto Rico Electric Power Authority

T&D Transaction Process Overview

The T&D RFP process is being conducted by the Puerto Rico Public-Private Partnerships Authority (P3A) with the purpose of awarding a long-term Partnership Contract.

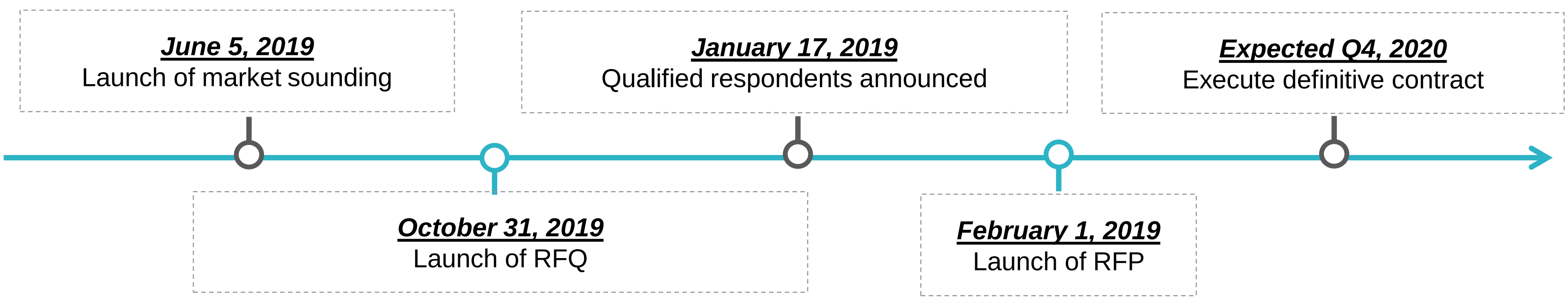
RFP Process Overview

- Parties that were advanced to the RFP stage ("Qualified Respondents") were invited to submit proposals to manage, operate, maintain, rehabilitate, repair, refurbish, replace, improve, expand, and finance the T&D system
- At the conclusion of the RFP Process, the Authority and PREPA expect PREPA to enter into a long-term agreement (the O&M Agreement) with a private sector company or consortium (the Private Party)
- The RFP Process allows the opportunity for Qualified Respondents to thoroughly diligence the PREPA T&D system and operations through the following:

  – Dataroom
  – Financial model and forecast
  – Access to management and senior personnel
  – Site visits
  – Opportunity to participate in Q&A
  – White papers on key areas of diligence

Key RFP Process Milestones

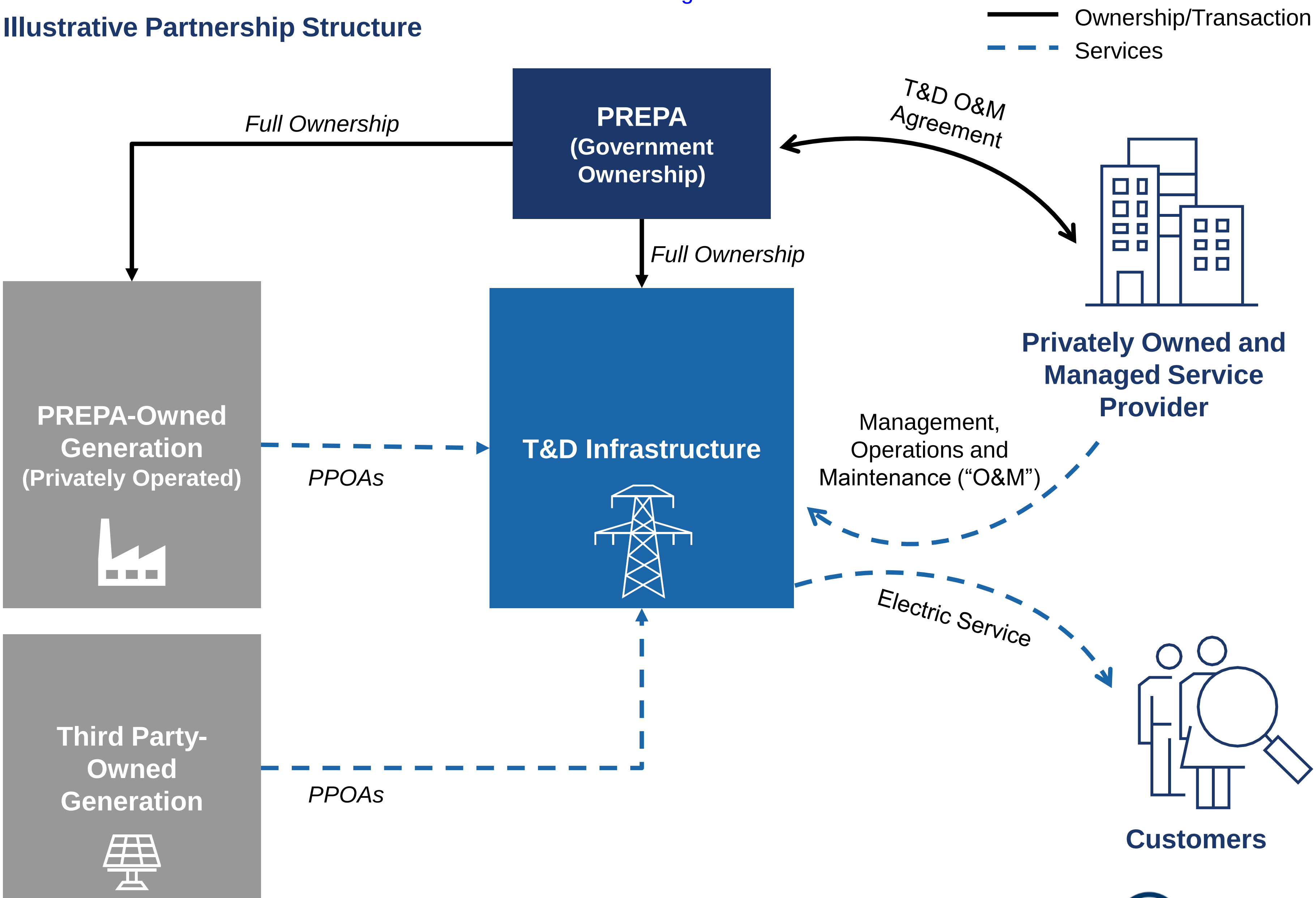
Note: Timeline and RFP key milestones are for illustrative purposes



Puerto Rico Electric Power Authority

Proposed “GridCo” T&D Partnership Structure Post-Transaction

Illustrative Partnership Structure



Puerto Rico Electric Power Authority

Core Objectives of the Generation Transformation: Reconstruction and Privatization

Objective 1	Transfer existing PREPA generation assets to private operations and maintenance
Objective 2	Establish framework wherein future generation assets are privately owned / operated
Objective 3	Reduce reliance on fuel oil and overall fuel cost and associated volatility and emissions
Objective 4	Modernize generation fleet, retiring inefficient units and increasing the development of renewable energy and natural gas-fired facilities
Objective 5	Invest in facility repairs and enhancements to improve system resiliency
Objective 6	Leverage proven energy storage, distributed energy, and MiniGrid technologies to provide greater flexibility, reliability, and resiliency of energy supply
Objective 7	Optimize economic dispatch capabilities by implementing modern technologies
Objective 8	Improve overall system operational flexibility
Objective 9	Right-sizing of generation fleet

All new generation will be owned and / or operated by private entities, with the near- to mid-term goal of fully separating operation of the generation assets from PREPA

Puerto Rico Electric Power Authority

Future State Vision for Generation System

The map below represents the latest vision for the power system's generation state in 2025, per the IRP ESM scenario.

Mayaguez North CT 4x23 MW

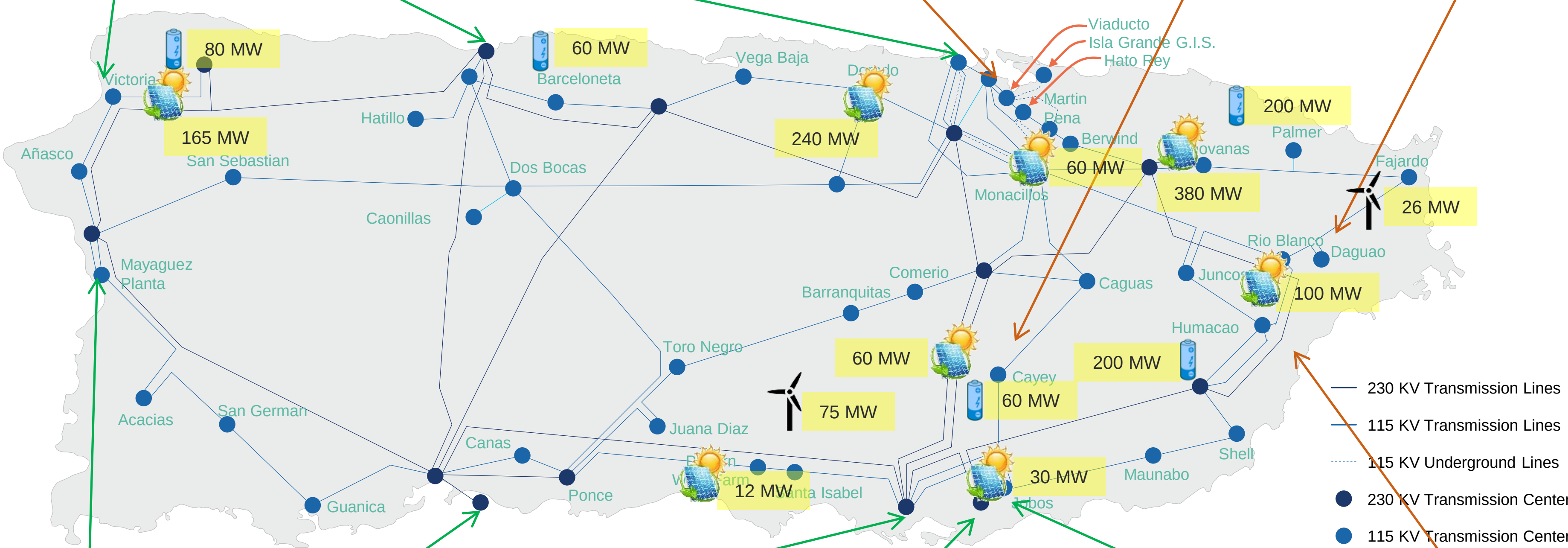
Cambalache 248 MW

Palo Seco CC 302 MW

San Juan CC 440 MW

Cayey CT 2x23 MW

Daguao CT 5x23 MW



Mayaguez 220 MW

EcoElectrica 507 MW

Aguirre CC 592 MW

AES 454 MW

Jobos CT 2x23 MW

Yabucoa CT 5x23 MW CC 302 MW

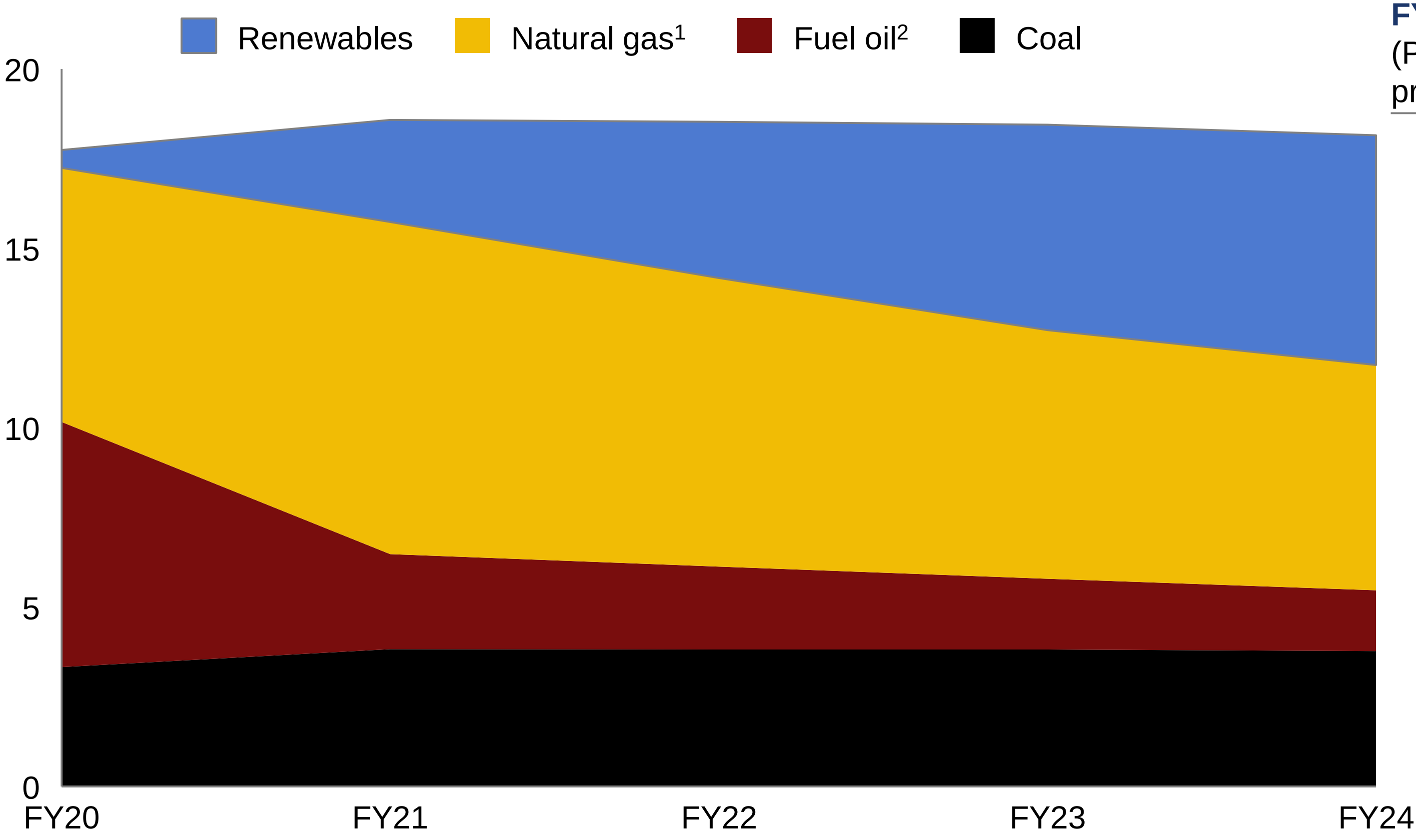
1. Combustion Turbine (CT)
1. Combined Cycle (CC).
2. Source: 2019 DRAFT IRP

Solar
Wind
Battery Storage

Puerto Rico Electric Power Authority

Overview of Projected Generation Mix

Energy Production Over Time (TWh)



FY2024 Generation Mix
(Percent of total energy production)

- **35%** in renewables
- **35%** in natural gas
- **9%** in fuel oil
- **21%** in coal

Over the long-term, Puerto Rico will make a significant shift towards renewable and efficient dual-fuel combined cycle power generation. The resulting mix will support system reliability, affordable rates and environmental stewardship.

1 Includes generation from EcoElectrica
2 Includes generation from diesel and heavy fuel oil

SOURCE: 2019 Integrated Resources Plan ESM Scenario (Adjusted to macroeconomic forecasts of this Fiscal Plan). FY20 forecast modeling based on separate PROMOD modeling run with assumptions in line with most up to date information on implementation of generation and dispatch related initiatives

Puerto Rico Electric Power Authority

Core Objectives of T&D Reconstruction and Privatization

Objective 1	Select a qualified private T&D operator (the “Private Operator”) to leverage private sector management, operational and maintenance expertise of the T&D system
Objective 2	Upgrade T&D infrastructure to current industry codes and standards
Objective 3	Implement MiniGrids and microgrids for critical infrastructure and remote communities
Objective 4	Reinforce substations, poles, and conductors to withstand catastrophic events
Objective 5	Leverage modern grid technologies to lower number of outages and operational costs, reduce recovery times, enhance network communications and control systems, and enable integration of significant renewable and distributed resources
Objective 6	Identify and implement emergency planning, response, and coordination improvements related to customer engagement and the use of mutual aid support

The Private Operator will be responsible for executing the EGM strategy as well as assisting in the deployment of related federal funding, as relevant and available

Puerto Rico Electric Power Authority

To enable the … envisaged

Objectives of transformation		Proposed initiatives in progress
CUSTOMER-CENTRIC	▪ Enable residents to choose how to best address their energy needs ▪ Enable consumers to become prosumers[1] ▪ Increase customer engagement	▪ Deploy E-Billing, outsource call center operations, restore power to its customer base and increased revenues,
AFFORDABLE	▪ Improve the cost of electric service to all customers ▪ Improve operational efficiency and financial stability	▪ T&D Transformation Transaction, Transformation of Generation Fleet, implemented updated fuel and purchase power strategy, restructure the debt obligations, finalize future labor strategy
RELIABLE	▪ Establish best-in-class reliability of electric service, which is essential for customer well-being and economic development ▪ Establish best-in-class power quality that meets growing customer needs	▪ Begin analysis for microgrid candidates, develop and initiate renewables strategy incl. Hydro, generation scale solar, rooftop solar
RESILIENT	▪ Maintain ability to adequately withstand catastrophic natural events and other adverse conditions ▪ Continuously improve emergency preparedness capability	▪ Deploy vegetation management contractor at scale
SUSTAINABLE	▪ Train and engage workforce with a strong safety culture ▪ Exact transparent regulatory framework ▪ Pioneer environmental leadership ▪ Drive economy and customer well-being	▪ Improving safety performance, reduce sustained overtime, create a workplace environment to drive employee satisfaction

Puerto Rico Electric Power Authority

Status of Critical Initiatives to Enable Sector Transformation

PREPA is undertaking or has completed the following tasks throughout the Transformation Period to-Date:

Element of Transformation	***Operational Enablers / Initiative***	***Status***	***Detail***
Privatization	Enactment of enabling act for transformation	**Completed**	Enactment of Act 120-2018 (the Puerto Rico Electric System Transformation Act) on **June 20, 2018**
Privatization	T&D Transformation Transaction	**Ongoing**	Successful issuance of RFP by the P3 Partnership Committee; on schedule for a year-end 2019 selection announcement
Privatization	Regulatory Framework for Sector Transformation	**Completed**	Act 17-2019 signed into law on **April 11, 2019**, enabling energy sector transformation
Privatization	Transformation of Generation Fleet	**Ongoing**	P3A and PREPA working together on procurement documentation
Governance	Establishment of PMO	**Completed**	PMO established in **November, 2017**, to manage transformation and Fiscal Plan implementation and reporting efforts in close coordination with FOMB
Resiliency	Grid Modernization Plan	**Ongoing**	PREPA to continue working with a technical expert consultant on the modernization roadmap; COR3, P3A and PREPA finalized the Energy Grid Modernization Plan which sets forth the capex roadmap for a flexible and decentralized grid (significantly relies on FEMA funding)
Regulatory	Develop Integrated Resource Plan	**Ongoing**	Proposed IRP was submitted on **June 7, 2019**; pending review and approval by PREB
Regulatory	Permanent Rate Implementation	**Completed**	Implemented on **May 1, 2019**.

Puerto Rico Electric Power Authority

Status of Critical Initiatives to Enable Sector Transformation (continued)

PREPA is undertaking or has completed the following tasks throughout the Transformation:

Element of Transformation	*Operational Enablers / Initiative*	*Status*	*Detail*
Revenues	Restore power to its customer base and increased revenues	**Completed**	Power was restored to 100% of customers capable of receiving power in **August, 2018**; base revenues are 7.8% above budget for March 2019 YTD
Liquidity	Ensure funding for continued operations, including billing all customers and securing external funding	**Completed**	PREPA actively managed its liquidity needs, including obtaining and fully re-paying a $300 million loan from the Central Government on **March 8, 2019**
Fuel and Purchased Power	Execution of Fuel Diversification Strategy	**Ongoing**	PREPA selected and signed an agreement for LNG supply to San Juan units No. 5 & 6 (which currently burn diesel) **on March 2019**, with significant projected fuel cost savings of $500 million over the next five years
Fuel and Purchased Power	Conventional PPOA Renegotiation	**Ongoing**	PREPA actively negotiating with independent power producers (IPP), in compliance with the IRP
Fuel and Purchased Power	Palo Seco New Units	**Ongoing**	Drafting of RFP underway for new 300MW combined cycle in Palo Seco, subject to consistency with final IRP
Fuel and Purchased Power	Fuel Supply Contract Renegotiation	**Ongoing**	Comprehensive fuel procurement strategy should be developed by the end of Q1 FY2020 to deliver further savings for PREPA starting in FY2020
Reliability	Vegetation Management Outsourcing	**Ongoing**	Two pilot projects completed; execution of longer term outsourcing underway
Reliability	Mobile Generators	**Ongoing**	Ongoing study on dispatchable backup generators, to be aligned with microgrid development
Reliability	Battery Energy Storage	**Ongoing**	Proposals received by the P3A from private proponents, awaiting confirmation of Federal Emergency Management Agency (FEMA) funding

Status of Critical Initiatives to Enable Sector Transformation (continued)

PREPA is undertaking or has completed the following tasks throughout the Transformation:

Element of Transformation	*Operational Enablers / Initiative*	*Status*	*Detail*
Reliability	Microgrids	**Ongoing**	High level analyses of critical areas for microgrids complete, PREPA to develop final list of project candidates
Customer Service	Call Center Outsourcing	**Ongoing**	RFP for an outsourced overflow call center issued in **February 2019**
Customer Service	E-Billing	**Ongoing**	Pre-Maria E-Billing was initiated; reintroduced with new PREPA website; Advanced Metering Infrastructure (AMI) team is working on the RFP & specifications
Labor Operating Expenses	Medical Benefits Reform	**Completed**	PREPA successfully reformed its medical benefits program on **January 1, 2019**, resulting in annualized savings of roughly $29 million[1] relative to what PREPA was previously spending
Labor Operating Expenses	Labor Benchmarking	**Ongoing**	Ongoing personnel capacity assessment in T&D, customer service, generation directorates; preliminary results under examination
Labor Operating Expenses	Overtime Optimization	**Ongoing**	Preliminary analysis of recent overtime (OT) spending data complete; PREPA to continue identifying OT drivers and coordinate with the personnel capacity assessment
Legacy Obligations	Restructuring Support Agreement (RSA)	**Ongoing**	AAFAF and FOMB announced and published definitive RSA with Ad Hoc Group and Assured; legal and financial advisors are continuing discussions on implementation and deal closing

1 Includes savings from lower Retiree Medical Benefits costs.

Puerto Rico Electric Power Authority

Status of Critical Initiatives to Enable Sector Transformation (continued)

PREPA is undertaking or has completed the following tasks throughout the Transformation:

Element of Transformation	*Operational Enablers / Initiative*	*Status*	*Detail*
Legacy Obligations	Pension Reform	**Ongoing**	Pension analysis conducted by an independent third-party; PREPA and the Government to complete analysis and finalize work plan in FY2020
Reliability	Hydro	**Ongoing**	Final RFQ issued; development of procurement documentation underway for Toro Negro Hydro
Reliability	Peakers	**Ongoing**	Final RFQ issued for converting existing peaking resources to Combustion Turbine (CT) or Reciprocating Internal Combustion Engine (RICE); RFP to be issued by P3A
Reliability	Legacy Generation Assets	**Ongoing**	Development of procurement documentation underway for temporary and eastern generation; PREPA and P3A designing procurement strategy for remaining assets
Resiliency	428 Funding	**Ongoing**	Energy Grid Modernization (EGM) plan completed[1], which will serve as a basis for 428 permanent work funding requests
Resiliency	CDBG funding	**Ongoing**	$2 billion in CDBG-DR funding appropriated "for improved electrical power systems in areas impacted by Hurricane Maria"[2]; PREPA working with Dept. of Housing and Urban Development (HUD), Department of Energy (DOE), and PR Housing Administration for compliant projects to qualify

1. Capital expense forecast currently still in preliminary draft form to be updated under COR3 leadership as it receives input from key stakeholders, including but not limited to the federal government entities involved in awarding funding for energy system reconstruction
2. Federal Register Notice to Department of Housing and Urban Development, 83 FR 40314

Puerto Rico Electric Power Authority

Generation Transformation Initiatives Overview

- **PREPA and the P3 Authority have issued two RFPs prior to the IRP submission, and two RFPs are soon to be released.**
- **Outstanding RFPs were issued to move towards the goal of supporting a modern grid and a new generation mix**

RFP	Type	Issuer	Issued	Deadline	Latest update
New generation for Culebra & Vieques	Generation	PREPA	April 2018	Complete	▪ 15MW system ▪ Brings generation closer to load
Utility scale energy storage	Storage	P3 Authority	RFQ: June 2018	TBD	▪ RFP sent to bidders; extension made to the selection process due to delays in the FEMA application process
Hydroelectric program upgrade	Generation	P3 Authority	TBD	TBD	▪ Final RFQ issued in early April, RFP in draft phase
Replace PREPA's peaking units	Generation	PREPA & P3 Authority	TBD	TBD	▪ Final RFQ issued in early April, RFP in draft phase
San Juan 5 & 6 Conversion	Generation	PREPA	July 2018	Complete	▪ Awaiting final environmental approvals and permits

PREPA has issued the following RFPs that are included in the IRP and PREPA planning processes:

- Two RFPs for development of microgrids, one at the Roosevelt Roads Naval Station[1] and five at PRIDCO industrial sites[2]
- One RFP proposes a 160-240 MW liquefied propane gas (LPG) private generation facility in San Juan, closer to demand[3]

1 Issued by the Commonwealth of Puerto Rico through the Local Redevelopment Authority for Naval Station Roosevelt Roads
2 Issued by the Commonwealth of Puerto Rico through the Puerto Rico Industrial Development Company (PRIDCO)
3 The project was accepted by the P3 Authority and is still under consideration and should be assessed as part of the IRP

Puerto Rico Electric Power Authority

III. Historical Context and Current Challenges

Key Statistics of PREPA

PREPA is vertically integrated and is the sole energy provider in Puerto Rico

- Puerto Rico inflation adjusted macroeconomic indicators (real GNP) have been stagnant for the past decade, since 2006
- **PREPA serves ~1.5M** customers, *91% residential, 9% commercial, and >1% industrial*

- **PREPA** has **~6,000** employees, which has declined recently due to retirement
- Since 2008, PREPA lost nearly **40% of its workforce**, primarily highly skilled operational resources

- As of March 2019, PREPA is anticipated to earn revenues of **$3.3B for FY2019**[1]

- Overview of generation system:
  - Generating capacity: **6,070 MW (PREPA 4,876 MW; IPP 961 MW)**
  - **45%** of generation is from oil, compared with national average of **4%**
  - **31** major generating units in **20** facilities; older than national average
  - **4%** of generation capacity from renewables, vs. national average of **15%**
  - PREPA-owned plants average ~**41 years** old[2]

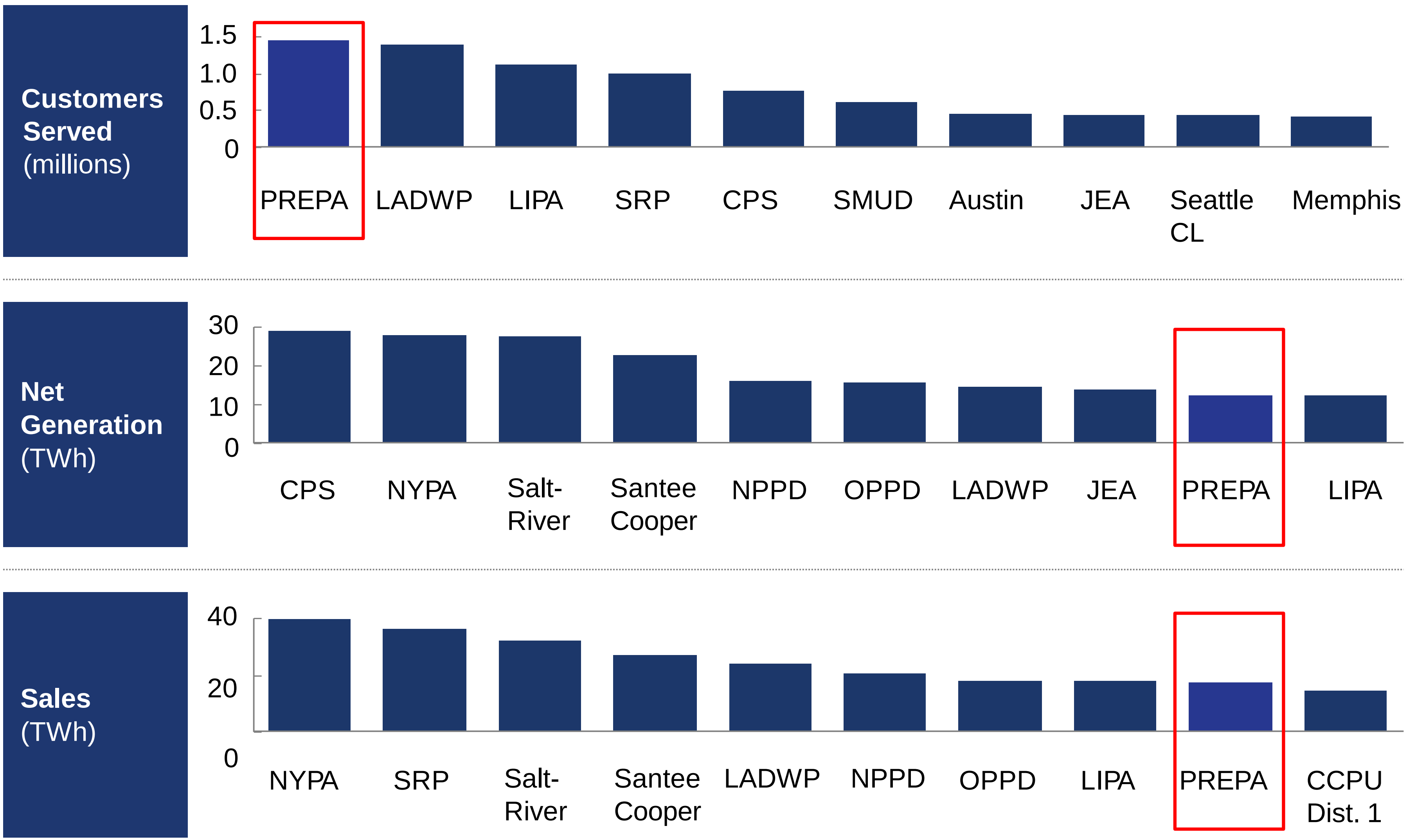
- Overview of transmission and distribution system:
  - Transmission Lines: **1,134 miles (230 kV / 115 kV)**
  - Sub-transmission Lines: **1,549 miles (38 kV)**
  - Primary voltage distribution lines: **16,806 miles (13kV, 8kV, 4kV)**
  - 38 kV substations: **279**
  - 115 kV substations: **61**

- Estimate of reliability metrics in FY2019[1]:
  - Average time a customer experiences interruptions (SAIDI[3]): **9.6 hours** (14.2 hours in FY2017)
  - Average number of power interruptions (SAIFI[4]): **3.8 occurrences** (4.8 occurrences in FY2017)
  - Average length of power interruptions (CAIDI[5]): **2.5 hours** (2.9 hours in FY2017)
- Safety metrics:
  - **10.72 safety incidents** per 200,000 hours of labor in 2018
  - **0 deaths** over the last four years

1 Based on FY YTD March 2019 financial and operational results. 12 month estimates are extrapolated from 9 month actuals
2 PREPA-owned plants are all oil or gas fired, all renewables are contracted through PPAs
3 System Average Interruption Duration Index
4 System Average Interruption Frequency Index
5 Customer Average Interruption Duration Index

Puerto Rico Electric Power Authority

PREPA is one of the largest public power utilities in the U.S. by customers served, but has relatively low generation and sales on a per customer basis



SOURCE: PREPA, as of June 30, 2016, based on unaudited results APPA. "U.S. Electric Utility Industry Statistics, 2014". 2016-2017 Annual Directory & Statistical Report

Puerto Rico Electric Power Authority

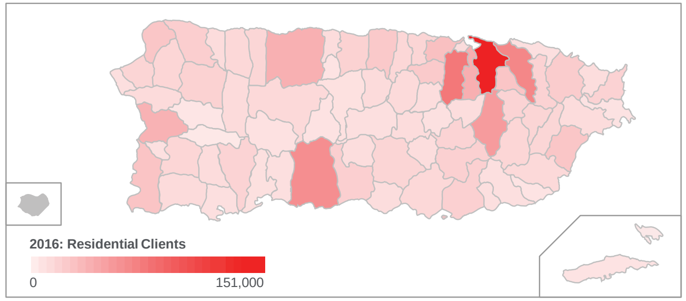
Customer Types and Location

Characteristics

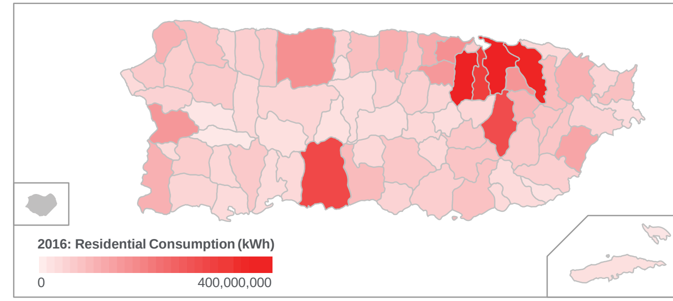
- The largest number of residential and commercial clients are based in the San Juan and Ponce regions
- Industrial clients are primarily located in San Juan and Ponce, with a large number located in Caguas, Guaynabo, and Bayamon
- Manufacturing is one of the largest contributors to Puerto Rico's economy
- Key manufacturing industries are pharmaceuticals and medical devices, but others industries include electronics, apparel, and petrochemicals

Residential Customers[1]

Number of Customers

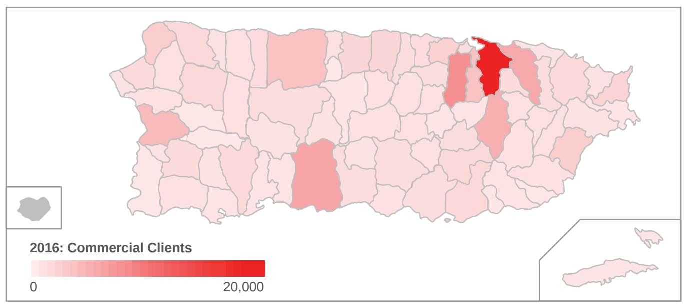


Customer Load

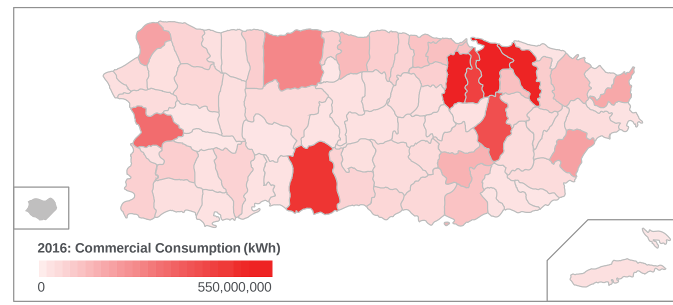


Commercial Customers[1]

Number of Customers

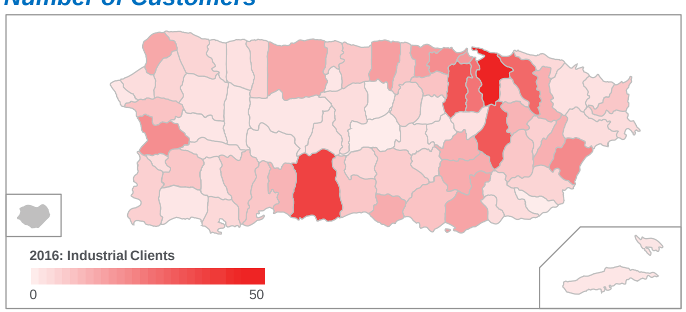


Customer Load

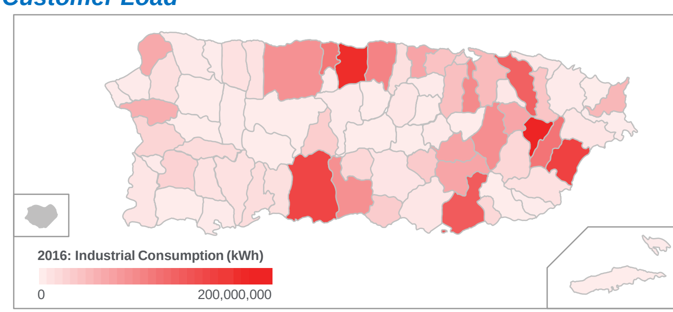


Industrial Customers[1]

Number of Customers



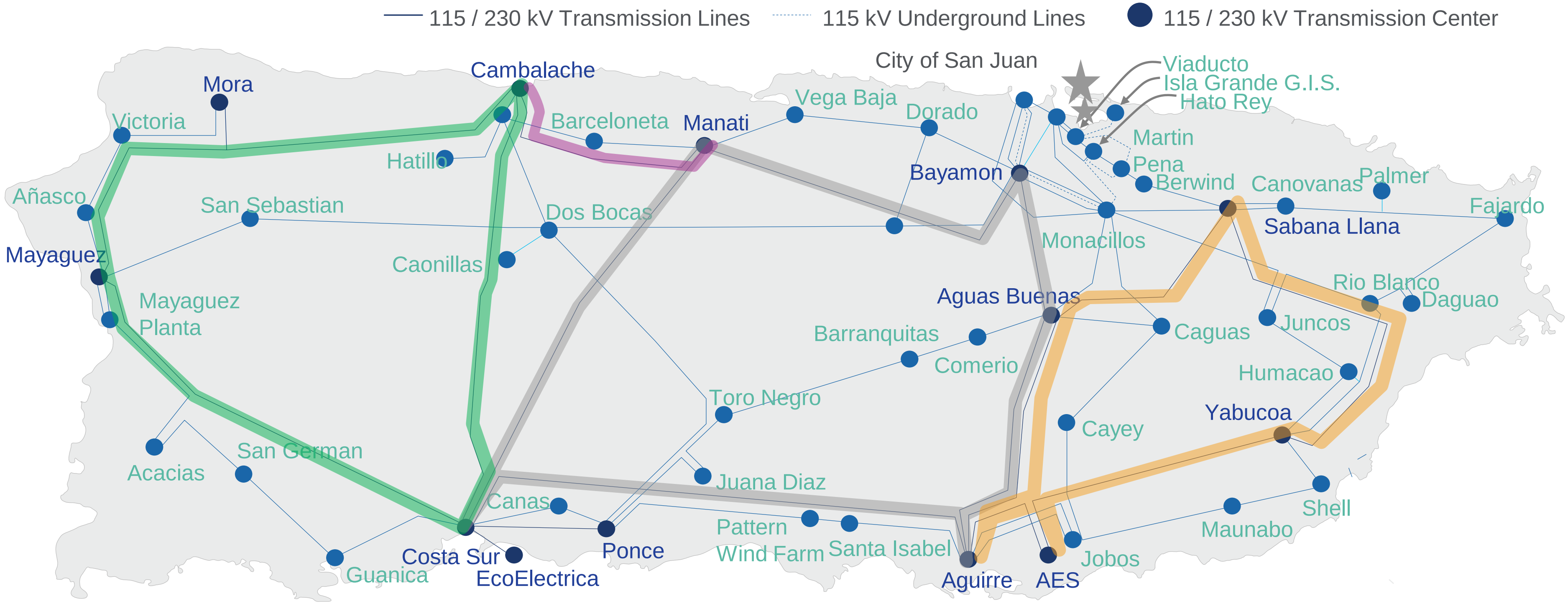
Customer Load



1. Data presented is as of 2016 and is the most recent data available.

Puerto Rico Electric Power Authority

Current State of Transmission & Distribution (T&D)



Western Loop

- Connects Costa Sur and EcoElectrica with Mayaguez in the west and Cambalache in the north
- Entered service in 2002

Central Loop

- Connects Costa Sur, EcoElectrica and Aguirre in the south with San Juan in the north via a transmission centers at Agua Buenas, Manati and Bayamon

Eastern Loop

- Connects Aguirre and AES in the south through transmission centers at Yabucoa in the east and Aguas Buenas and Sabana Llana in the north
- Entered service in 2006

Puerto Rico Electric Power Authority

Overview of T&D Design and Challenges

Overview

Transmission

- 1,134 miles of transmission lines (230 kV and 115 kV) and 1,549 miles of sub-transmission line (38 kV)
- Overhead lines total 2,567 miles; Underground lines total 117 miles
- 178 transmission centers operating at 230 kV, 115 kV, and 38 kV and ~44,000 transmission structures
  - Three 230 kV loops in the West, East, and Central parts of the island
  - 115 kV lines serve all the major load centers on the island
  - 38 kV sub-transmission system serve more inaccessible interior regions, as well as most major industrial and commercial customers

Distribution

- System serves ~1.5mm customers and consists of roughly 1,200 circuits
- ~16,806 miles of primary voltage overhead and underground distribution lines with an estimated 15,087 miles of secondary lines and service drops (total of ~31,893 miles)
- 61-115 kV substations, 279-38 kV substations and 824 privately-owned substations
- System includes ~398,000 distribution poles and ~213,000 service transformers
  - Distribution poles are galvanized steel, concrete, and wood
- System operates at 4.8 kV (>1%), 4.16 kV (52%), 7.2 kV (2%), 8.32 kV (13%), and 13.2 kV (32%)
- The majority of PREPA's distribution system is overhead, with ~20% of lines located underground (mainly in urban areas)

Challenges

- **Geographic:** Majority of load is located in the northern metropolitan areas (~70% of total load), however most generation is in the south (~70% of online generation)
  - Key transmission lines traverse mountainous, densely-vegetated terrain, making them vulnerable to outages
- **Operational:** PREPA does not have a transmission load flow model to analyze the movement of electricity in the system
  - Difficult to anticipate electricity flow due to unanticipated changes, including usage above normal levels
- **Capacity:** Most major lines operate below 45 – 65% of their stated capacity
  - Such challenges can adversely affect overall system reliability

Puerto Rico Electric Power Authority

Current State of Generation Assets

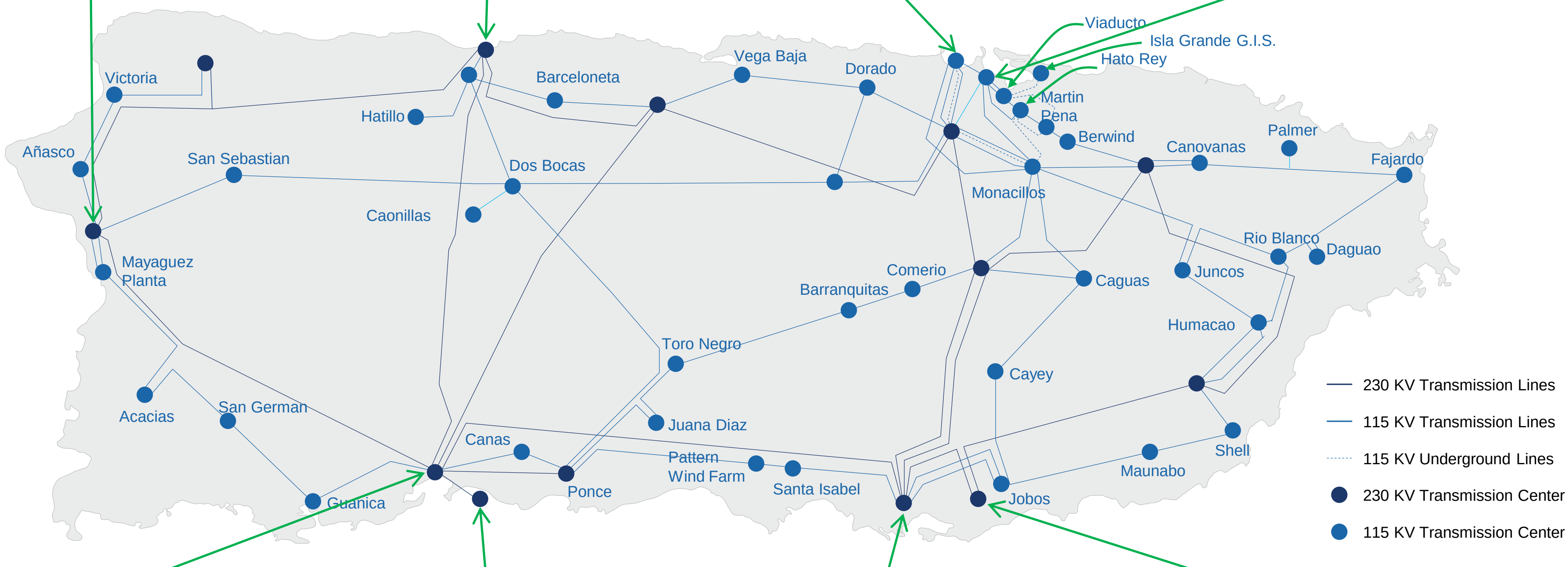
The majority of Puerto Rico's generation capacity is located on the southern coastline and requires large 230 kV transmission lines to connect to the major northern load center in the San Juan Metro Area.

Facility	Mayaguez
Capacity	220 MW
Fuel	Diesel
Tech.	CT[2]

Facility	Cambalache
Capacity	248 MW
Fuel	Diesel
Tech.	CT

Facility	Palo Seco
Capacity	602 MW
Fuel	Fuel Oil
Tech.	ST[3]

Facility	San Juan
Capacity	440 / 400 MW
Fuel	Diesel / Fuel Oil
Tech.	CCGT[4] / ST



Facility	Costa Sur
Capacity	170 / 820 MW
Fuel	Fuel Oil / Gas
Tech.	ST

Facility	EcoElectrica
Capacity	507 MW
Fuel	Gas
Tech.	CCGT

Facility	Aguirre
Capacity	592 / 900 MW
Fuel	Diesel / Fuel Oil
Tech.	CCGT / ST

Facility	AES
Capacity	454 MW
Fuel	Coal
Tech.	ST

1 Includes both PREPA-owned and contracted (third party-owned) generation assets
2 Combustion Turbine (CT)
3 Steam Turbine (ST)
4 Combined Cycle Gas Turbine (CCGT)

Puerto Rico Electric Power Authority

PREPA's Generation Fleet Challenges

System Considerations	**Island System**	• Island based system is isolated and thus unable to import additional power for load balancing / voltage control / frequency control across system • Significant fuel import infrastructure necessary to support new gas generation / fuel conversion at existing plants
	Transmission	• Key load centers (i.e. Greater San Juan) are located in the north, while the most economic generation assets on the island are located in the south, separated by mountainous terrain • Only three 230 kV transmission loops link generation from the south with demand in the north, leaving the grid vulnerable to hurricanes and other catastrophic events – Key transmission lines traverse mountainous areas, allowing for limited access for repairs or reconstruction • Transmission lines are operated at low percentages of total capacity for safety / reliability reasons, largely due to challenges with construction design, unmanaged vegetation growth, inability to predict electric flow, and overall system age
Generation Considerations	**Unit Size**	• Core units are relatively large as a percent of system peak load – single units tripping offline have potential to dramatically impact load balancing across system – Units are required to spend significant operating hours at partial load in order to maintain reliability, resulting in heat rate inefficiencies • High minimum stable loads
	Ramp Rates	• Slow ramp rates due to age and technology utilized by most of PREPA's fleet • Limited quick-start capable generators available to compensate for changes in load
	Environmental Compliance	• Certain units are operationally limited in capacity factor in order to be compliant with Mercury & Air Toxic Standards (MATS), the U.S. Environmental Protection Agency (EPA) Consent Decree, and other environmental permits • However, most units still run regardless of MATS compliance status
Cost Considerations	**Operation Costs**	• PREPA-owned CCGTs on the island burn diesel, offsetting cost savings associated with lower heat rate • Currently operating renewable facilities are designated "must run," yet have some of the most expensive generation costs on the island • Historic operations based on redundancy / reliability; not balanced with economic considerations
	Spinning Reserves	• Significant amounts of spinning reserves are necessary in order to quickly react to potential unit trips / swings in system load – Spinning reserves have high heat rates / high fuel costs

Puerto Rico Electric Power Authority

FY2013 – FY2018 Income Statement

Since the start of forbearance in FY2014, PREPA made several accounting adjustments to reflect the increasingly distressed economic and financial situation at the utility and the broader government. The changes notably include revised recognition of the significant Net Pension Liability[1] and loss of cash deposits at the Government Development Bank (“GDB”).

Preliminary and subject to material change

($ Thousands)	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Revenues:						
Operating revenues	$4,843,016	$4,468,922	$3,865,458	$2,994,893	$3,403,570	$3,015,096
Operating expenses:						
Fuel	($2,603,577)	($2,345,000)	($1,887,245)	($1,215,312)	($1,213,893)	($1,199,944)
Purchased power	(755,686)	(807,620)	(789,717)	(687,212)	(726,381)	(533,525)
Maintenance	(218,950)	(201,994)	(270,001)	(317,061)	(152,447)	(160,915)
Other operating expenses	(910,766)	(891,278)	(1,241,641)	(1,441,281)	(825,317)	(823,034)
Total operating expenses	**($4,488,979)**	**($4,245,892)**	**($4,188,604)**	**($3,660,866)**	**($2,918,038)**	**($2,717,418)**
Operating income / (loss)	**$354,037**	**$223,030**	**($323,146)**	**($665,973)**	**$485,532**	**$297,678**
Interest income and other	26,329	21,157	44,263	44,315	0	0
Interest expense, net	(386,867)	(431,180)	(468,278)	(474,283)	(483,386)	(474,142)
Impairment loss on GDB deposits	0	0	(144,733)	0	0	0
(Loss) / Gain before CILT and capital contributions	**($6,501)**	**($186,993)**	**($891,894)**	**($1,095,941)**	**$2,146**	**($176,464)**
CILT and other	(297,551)	(277,776)	(273,460)	(172,467)	(208,434)	(216,299)
Bond discount and defeasance amort.	0	0	0	0	(1,176)	(1,399)
Loss before capital contributions	**($304,052)**	**($464,769)**	**($1,165,354)**	**($1,268,408)**	**($207,464)**	**($394,162)**
Contributed capital	31,979	44,959	21,404	8,243	7,317	1,179
Change in net position	**($272,073)**	**($419,810)**	**($1,143,950)**	**($1,260,165)**	**($200,147)**	**($392,983)**
Net position at beginning of year	($575,122)	($847,195)	($1,267,005)	($3,577,901)	($4,838,066)	($5,038,213)
Change in pension accounting cost	0	0	(1,643,985)	0	0	0
Net Effect of the 2015 Restatement	0	0	477,039	0	0	0
Net position at end of year	**($847,195)**	**($1,267,005)**	**($3,577,901)**	**($4,838,066)**	**($5,038,213)**	**($5,431,196)**

Note: All years are fiscal.
1 Revision due to a change in the valuation approach (primarily due to a revised discount rate).

Puerto Rico Electric Power Authority

FY2019 Performance Against Budget

PREPA's year-to-date performance against budget shows: 1) underspending on maintenance and vegetation management outsourcing, and 2) higher spending on overtime.

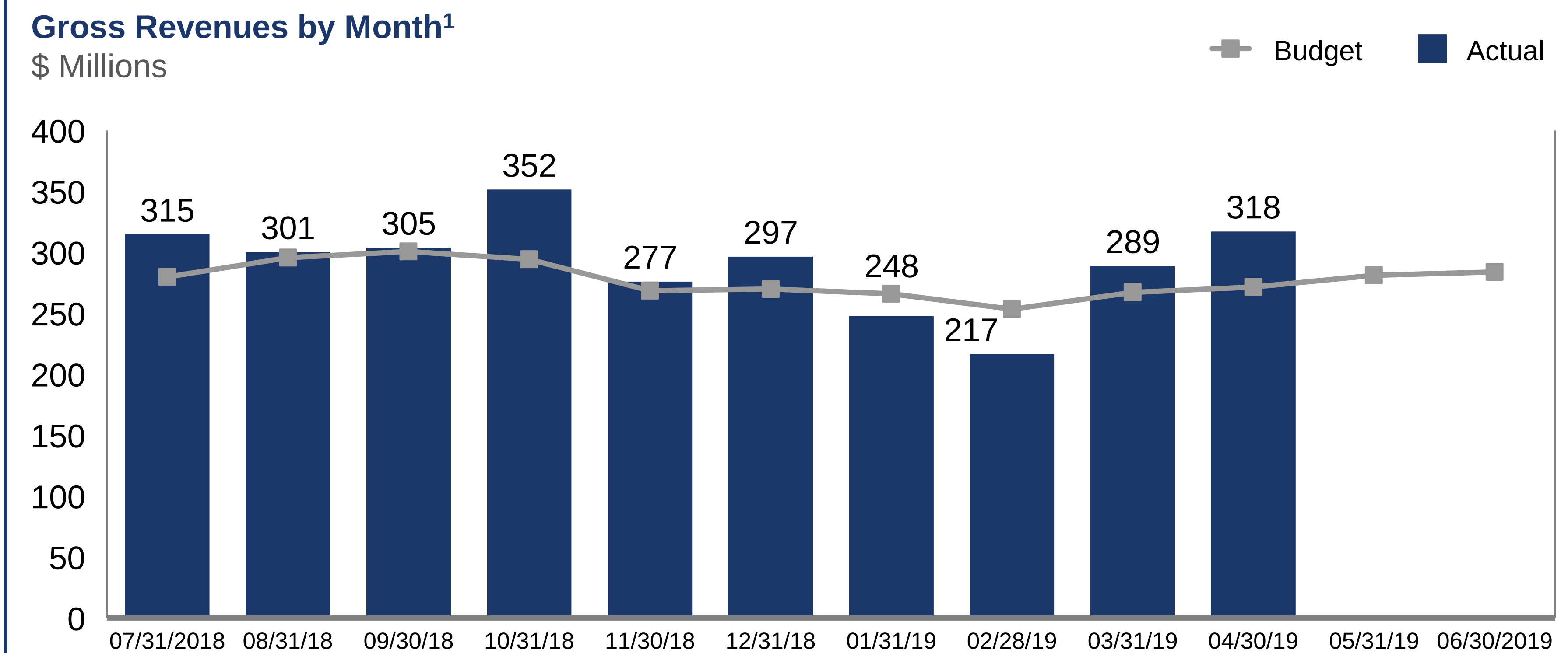
Preliminary and subject to material change

($ Millions)	FY2019 Budget	FY2019 YTD	FY2019 Projected
Gross Revenue	**3,332**	**2,602**	**3,235**
Other Income	17	84	112
Bad Debt Expense	(62)	(7)	(9)
CILT & Subsidies Reduction	(273)	(159)	(212)
Total Revenue	**3,014**	**2,520**	**3,360**
Operating Expenses			
Fuel	1,262	1,029	1,372
Purchased Power - Conventional	623	458	610
Purchased Power - Renewables	91	42	56
Total Fuel & Purchase Power Expense	**1,977**	**1,528**	**2,038**
Salaries & Wages	211	151	201
Pension & Benefits	121	87	116
Overtime Pay	30	40	54
Overtime Benefits	4	4	5
Total Labor Operating Expense	**366**	**283**	**377**
Total Non-Labor Expense	**414**	**193**	**258**
Total Maintenance Expense	**226**	**86**	**115**
Total Operating & Maintenance Expenses	**2,982**	**2,091**	**2,787**
BALANCE	32	429	339

Puerto Rico Electric Power Authority

Overview of FY2019 Actual Revenue Against Budget

Actual FY2019 consolidated revenues through March 2019 are in line with the FY2019 budget



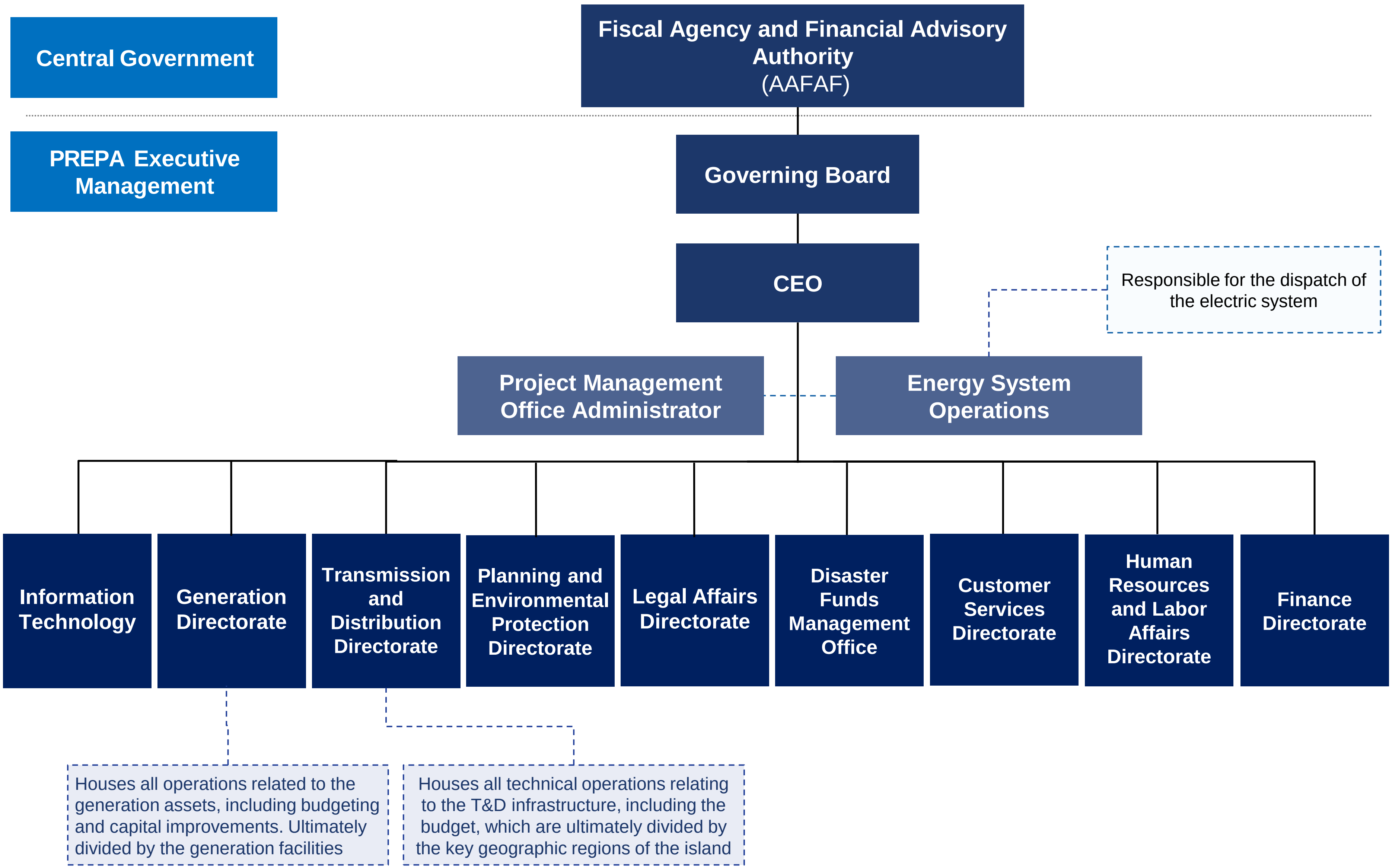
Key takeaways:
During the first three quarters of FY2019, PREPA had achieved gross revenues[1] approximately 5% above the projected budget. Likewise, total consolidated revenue[1] are higher by approximately 12% when compared to the projected budget.

1 Gross revenues include revenues collected from ratepayers for consumption, whereas consolidated revenues includes revenues collected from ratepayers for consumption, revenue for other income sources, and also other adjustments (bad debt expense, CILT and subsidies, etc.)

Puerto Rico Electric Power Authority

IV. Governance and Implementation

Governance Structure at PREPA until Energy Sector Transformation



Note: Does not reflect the full suite of functions that exists beneath the CEO.

Puerto Rico Electric Power Authority

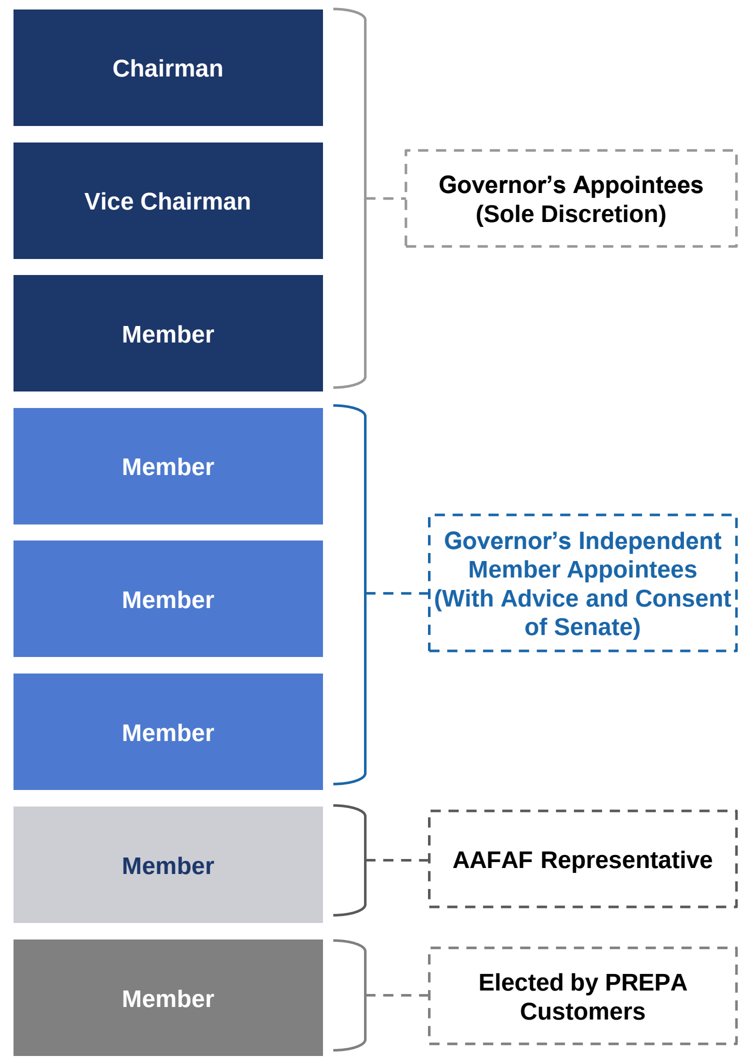
Governing Board Composition

Board Composition

- The Governing Board consists of eight members which elect one member to act as chairman:
  - The Executive Director (ED) of AAFAF who has a board seat per Act 2-2017 on any covered government territorial instrumentality
  - Three members appointed at the sole discretion of the Governor
  - Three independent members appointed by the Governor of Puerto Rico with advice and consent of the Puerto Rico Senate; independent members were selected on December 21, 2019, from a list of highly qualified candidates provided by a third party executive staffing firm
  - One member elected by customers as representative of customer interests

Current Focuses Include:

- Reconstruction and resiliency of the electrical grid
- Supporting privatization efforts of the utility
- Securing federal funding for emergency and permanent works
- Enhancing internal resource capabilities and business processes
- Transformation Plan for Puerto Rico's Energy Sector



1 Certified on March 12, 2019, by the Consumer Affairs Department as the Consumer Interest Representative

Puerto Rico Electric Power Authority

Recent Actions to Enact the PREPA Transformation Plan

Transformation elements

Operational transformation	**August 1: 2018**, FOMB certified the new Fiscal Plan for PREPA, advancing multiple implementation projects related to operational efficiencies and savings initiatives; the Government and PREPA are concurrently transforming the Puerto Rico energy sector and seeking private investment and operational expertise
Fiscal sustainability	**May 3: 2019**, AAFAF, PREPA and the FOMB reached a Definitive RSA and term sheet with the Ad Hoc Group of PREPA bondholders and Assured Guaranty, pertaining to the legacy of PREPA debt
Regulatory framework	**April 11: 2019**, Governor signed Act 17-2019, known as the Energy Policy Act, establishing a regulatory framework from Puerto Rico's energy sector and setting the way for the transformation of Puerto Rico's energy sector
Privatization	**March 6: 2018**, the Private-Public Partnership (P3) Act Amendment was introduced to the Legislative Assembly of Puerto Rico as part of the Puerto Rico Electric System Transformation Act, which provides the legal authority for the sale or transfer of PREPA generation assets **June 20: 2018**, the Governor signed Act 120-2018, which authorizes long term partnership agreements for generation and T&D assets **February 1: 2019**, the request for proposals process (RFP) commenced for PREPA T&D, releasing documentation to qualified participants
Grid planning	**May 27 2014**: Act 57-2014 was approved which requires PREPA to remain in compliance with the IRP subject to PREB supervision; Siemens has been engaged by PREPA to develop a systemwide IRP which serves as the framework for future grid modernization initiatives **February 1, 2019:** COR3 and PREPA submitted the Electric Grid Modernization (EGM) for final review by the COR3 executive leadership team and ultimate submittal to the Governor of Puerto Rico

Puerto Rico Electric Power Authority

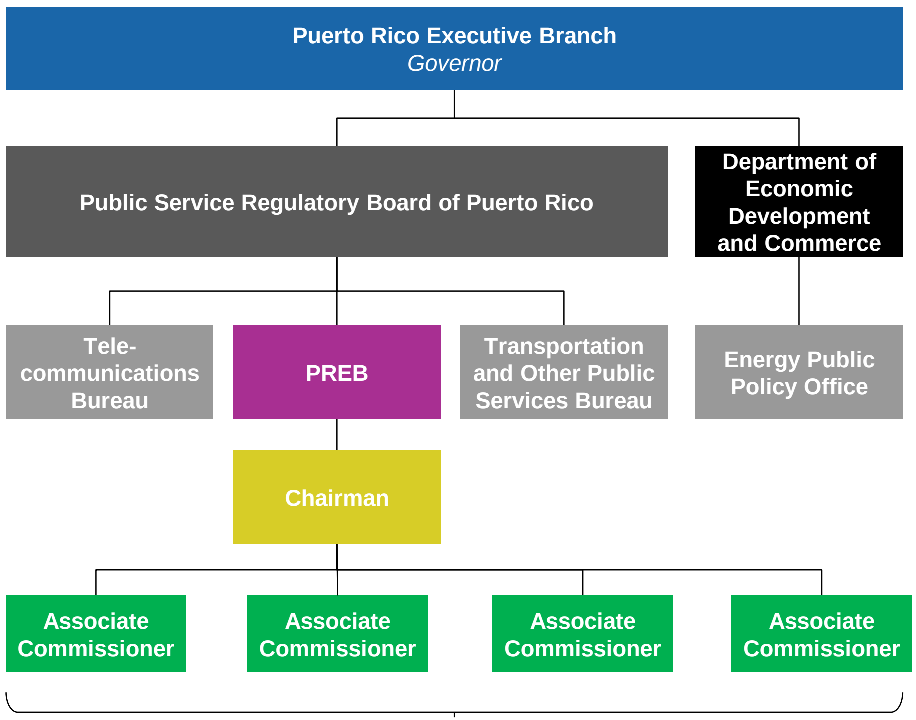
V. Regulatory Structure and Key Legislation

Overview of Regulatory Structure and Key Legislation

Key Legislation

- The "Puerto Rico Electrical Transformation Act" (Act 120-2018) and the "Act for the Implementation of the Puerto Rico Public Service Regulatory Board Reorganization Plan" (Act 211-2018) include provisions regarding the restructuring of the regulatory framework to better align with the Government's goals for the transformation of the energy sector. These were refined, expanded, and codified in the "Puerto Rico Energy Public Policy Act" (Act 17-2019), which was signed into law on April 11, 2019
- The Acts address the organization of PREB, establish qualifications requirements for commissioners, and confirm the PREB's jurisdiction with respect to the electric sector transformation process
  - Any transaction carried out as part of the transformation process will require the PREB's issuance of an Energy Compliance Certificate
- PREB is composed of five commissioners and makes decisions with the approval of a majority
  - Final decisions are subject to review by the Court of Appeals of Puerto Rico, except when a U.S. Federal law confers jurisdiction elsewhere
  - Although administratively located within the PSRB, PREB enjoys financial and substantive independence
- As mandated by Act 120-2018, a working group composed of industry experts and stakeholder associations, working under the oversight of the Puerto Rico Legislature, developed and submitted a proposed regulatory framework
  - The Southern States Energy Board and the U.S. DOE actively engaged in advising the working group on the structure of the proposed regulatory framework
  - This advice greatly informed the drafting and enactment of Act 17-2019

Regulatory Structure



- Commissioners are appointed by the Governor with the advice and consent of the Senate
- Commissioners will serve staggered terms of six years each and can only be removed for just cause
- Commissioners must meet certain requirements relating to professional education and experience in order to hold position

Puerto Rico Electric Power Authority

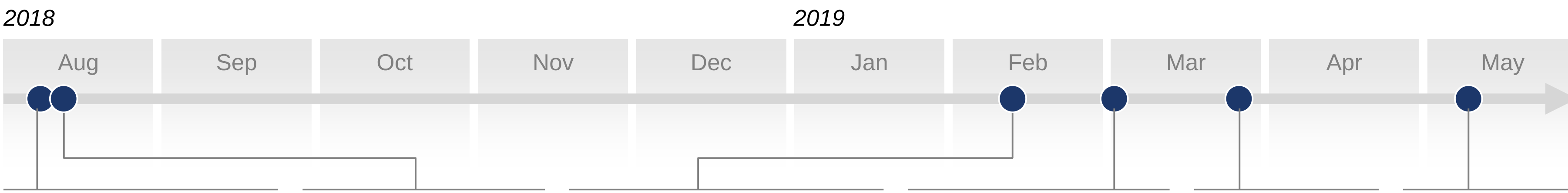
Puerto Rico Energy Bureau Orders and Resolutions

Acts 120-2018 (the Puerto Rico Electric System Transformation Act) and 211-2018 (the Implementation of the Puerto Rico Public Service Regulatory Board Reorganization Plan Act) establish the legal framework for PREPA's transformation, granting the Energy Bureau the authority to approve any transformation-related agreements. Under Act 57-2014 (the Puerto Rico Transformation and RELIEF Act), PREPA, or any successor entity, is required to comply with the Integrated Resource Plan (IRP), subject to the supervision of the Energy Bureau

The Energy Bureau's powers, duties, and responsibilities include:

- Overseeing and ensuring implementation of public policy on electric power service
- Establishing and implementing regulations to guarantee the capacity, reliability, safety, efficiency, and reasonableness of electric rates
- Overseeing the quality and reliability of the electric system
- Reviewing and approving the rates charged by PREPA or any successor entity
- Ensuring that obligations to bondholders are met
- Reviewing, approving, and enforcing policies related to energy resource planning
- Overseeing environmental compliance

Key Energy Bureau Actions



August 7, 2018 – the Energy Bureau (formerly the Energy Commission) issued a Resolution and Order outlining its authority to regulate rates and rules and conditions for the provision of retail wheeling, as required by Act 57-2014, and requesting comments on rules governing wheeling.

August 8, 2018 – the Energy Bureau outlined the IRP prefiling process, subject to a public comment period and issued direct information requirements for PREPA's development of the IRP.

February 12, 2019 – the Energy Bureau issued notice that it will hire a consultant to perform the necessary studies for unbundling and charge the cost to PREPA; also ordered PREPA to promptly provide the Energy Bureau on a continuing basis all documents provided to the P3A.

March 1, 2019 – the Energy Bureau issued a notice of proposed rulemaking and request for public comments on wheeling regulations to begin in Spring 2019, with targeted implementation by January 2020.

March 25, 2019 – the Energy Bureau established a revised May 1, 2019, deadline for PREPA's Permanent Rate Implementation.

May 9, 2019 – the Energy Bureau extended the IRP filing date to May 31, 2019, with updated supporting testimony due by June 7, 2019.

Puerto Rico Electric Power Authority

Overview of the Puerto Rico Energy Public Policy Act (Act 17-2019)

Act 17-2019 establishes a comprehensive energy policy which is intended to change the electric sector in the following ways:

1. Requires unbundling of the electric system via sales of PREPA generation and transfer of control of T&D by concession or O&M agreement; prohibits vertical integration and limits concentration
2. Requires accommodation of renewable energy, distributed generation, and microgrids
3. Strongly promotes renewable energy resources
   - Renewable energy portfolio standards (i.e., 40% by 2025, up from 20%)
   - Faster permitting for renewable projects
   - Elimination of coal by January 1, 2028
4. Updates factors for PREB to consider in rate setting
5. Confirms PREB's role as an independent, apolitical regulator and expands its authority to:
   - Establish mechanisms for imposing incentives/penalties
   - Exercise high degree of scrutiny over maintenance of electric network and to require reports
   - Use alternative mechanisms to tariff regulation based on service costs
   - Establish an annual budget of $20 million not subject to Executive or Legislative approval
6. Establishes new procedures for emergency rates

PREB standards for enforcing rate mechanics:

1. Amendments to rates require PREB approval
   - Procedure/requirements per PREB's 2016 regulations
   - Approved rate remains in effect for three years except in case of periodic adjustments
2. Rate setting standard under Act 17-2019: Rates for electric service must be:
   - Prudent and reasonable
   - Consistent with accurate fiscal and operating practices
   - Provide for reliable service at the lowest possible cost
3. Rate setting standard under the PREPA Fiscal Plan: Rates for electric service must provide for:
   - Recovery of prudent operating and supply costs
   - Return of/on cost of new investment
   - Potential return on value of other assets and recovery of unrecovered investment costs at the end of the T&D concession (or O&M agreement), linked to investment obligation
   - Potential performance-based incentives

SOURCE: Puerto Rico Energy Public Policy Act (Act 17-2019)

Puerto Rico Electric Power Authority

Key Regulatory Issues and Requirements

Microgrids

1. Promoted by the Energy Policy Act (Act 17-2019)
   - Enhance system resiliency
   - Speed up service restoration
   - Reduce dependence on centralized generation
2. Existing 2018 Regulation categorizes microgrids, establishes technical requirements, requirements for cooperative and third party microgrids and procedures for registration
3. Energy Policy Act (Act 17-2019)
   - Guarantees interconnection
   - Provides for expedited procedures for interconnection of small (<5 MW) microgrids and for development of procedures to govern establishment of larger (>5 MW) microgrids
   - Establishes fines for non-compliance

Net metering

1. Promoted by the Energy Policy Act (Act 17-2019)
2. Existing Net Metering Program requires interconnection and net metering with customers using renewables
3. Energy Policy Act (Act 17-2019)
   - Requires 5-year study into net metering and distributed generation, with transitional rate and grandfathering for existing net metering customers
   - Prohibits T&D contractor from charging additional fees or increasing consumption for net metering customers
   - Establishes right of net metering customers to receive a credit for each kWh supplied to the network, at rates as authorized by the Energy Bureau
   - Grandfathers rates or compensation mechanisms for certain net metering customers

Energy storage

1. Promoted by Energy Policy Act (Act 17-2019), but no specific regulatory framework as yet
2. Energy Policy Act (Act 17-2019) requires Energy Bureau to:
   - Study energy storage by end of 2019
   - Eventually pass regulations to set specific minimum storage goals
   - Set a compliance calendar

Puerto Rico Electric Power Authority

Key Regulatory Issues and Requirements (continued)

Key T&D permits

1. Energy Compliance Certificate
   – Issued by Energy Bureau w/in 30 days of presentation of T&D contract
2. Electric Power Company Certification
   – T&D operator to file application with Energy Bureau w/in 90 days after T&D contract is executed
3. Approval is automatic
   – Other corporate, tax, operational and labor filings, other local permitting requirements

Invoice requirements

1. PREPA must design a detailed form of customer invoice, subject to the Energy Bureau's approval
2. The Energy Bureau is to approve certain cost categories, including fuel purchase and energy purchase, in order for them to be included in invoices
3. 2014 Transformation Act sets out detailed granular requirements for customer invoices, which will apply to a T&D contractor which succeeds to PREPA's invoicing duties
4. Proposed Regulation for Wheeling proposes further unbundling of rates/charges (see next page)

Contributions in lieu of taxes (CILT)

1. Electric service companies to make CILT to municipalities, which can be recovered
2. Complex system with caps per municipality, mechanisms for sharing cost savings, etc.
3. Energy Policy Act requires Energy Bureau to study the CILT program to evaluate effectiveness and present results to legislative assembly by end of 2019 (see detailed discussion in following pages)

Puerto Rico Electric Power Authority

Selected Key Regulatory Issues and Requirements (continued)

Renewable energy portfolio standards

1. Encourage diversified energy sources and technology
2. 40% compliant renewables by 2025, 60% by 2040, 100% by 2050
3. Energy Bureau to establish a market for renewable energy certificates
4. Energy Bureau to impose “reasonable corrective action plans” and fines
5. T&D contractor to commit to make necessary capital investments to modernize the grid and allow REPS compliance\

Draft regulation on wheeling

1. Proposes new industry structure to introduce competition among generators to provide services directly to customers (initially industrials and large commercial customers)
2. Key industry participants
   - Energy Service Companies
   - Default Service Provider
   - T&D Provider
   - System Operator

- Unbundling of PREPA costs (including non-bypassable costs)
- On February 8, 2019, the Energy Bureau announced its intention to retain a consultant to perform unbundling studies that will support the implementation of wheeling and has directed PREPA to cooperate with the identified consultant

Puerto Rico Electric Power Authority

Overview of CILT Reform

The Government of Puerto Rico has made significant changes in the treatment of the Contribution in Lieu of Taxes (CILT) by enacting Act 57-2014 and Act 4-2016

Pending Actions:

- Moving all of the municipal public lighting to the subsidies rider in the customer bill
- Removal of all municipal for-profit entities from eligibility to receive an electric service credit from the CILT
- Establishing a total consumption (kWh) cap on the municipal CILT, which will also be reduced by 15% (in three fiscal years, 5% each)
- Providing that the municipality will pay for any excess, plus rates for service to the for-profit ventures
- Establishing a mechanism that promotes energy efficiency and additional savings above the mandated total consumption cap imposed on municipalities by Act 57-2014 (i.e., 5% yearly reduction in the maximum consumption amount for a total 15% reduction over three years); municipalities would receive a payment from PREPA for the value of the difference between the mandatory total consumption cap and actual consumption, which would only be payable if all municipalities, in the aggregate, comply with their respective consumption caps

Under the new rate structure, PREPA will recover the cost of CILT via the CILT and subsidies rider on customer bills. Customers will have greater transparency and there will be greater accountability. Any additional reductions or amendments would require legislation

Payments from municipalities on their consumption in excess of their consumption caps, as well as collection of outstanding receivables for consumption in excess of municipal caps, is a potential source of additional revenues for PREPA

Puerto Rico Electric Power Authority

Case:17-04780-LTS Doc#:1428 Filed:07/02/19 Entered:07/02/19 23:24:35 Desc: Main Document Page 70 of 142

VI. Baseline Financial Projections and Assumptions

FY2020 Financial Projections

FY2020 projected expenses include improvements in generation dispatch and lower-cost fuel utilization, increases to headcount in key areas, and execution on critical maintenance projects and outsourced services initiatives such as vegetation management and call center support.

Preliminary and subject to material change

($ Millions)	FY2019 Budget	FY2019 YTD	FY2019 Projected[1]	FY2020 Projected[4]
Gross Revenue	**3,332**	**2,602**	**3,235[2]**	**3,350**
Other Income	17	84	112[3]	10
Bad Debt Expense	(62)	(7)	(9)	(62)
CILT & Subsidies Reduction	(273)	(159)	(212)	(297)
Total Revenue	**3,014**	**2,520**	**3,360**	**3,001**
Operating Expenses				
Fuel	1,262	1,029	1,372	1,140
Purchased Power - Conventional	623	458	610	671
Purchased Power - Renewables	91	42	56	86
Total Fuel & Purchase Power Expense	**1,977**	**1,528**	**2,038**	**1,897**
Salaries & Wages	211	151	201	214
Pension & Benefits	121	87	116	128
Overtime Pay	30	40	54	55
Overtime Benefits	4	4	5	6
Total Labor Operating Expense	**366**	**283**	**377**	**404**
Total Non-Labor Expense	**414**	**193**	**258**	**474**
Total Maintenance Expense	**226**	**86**	**115**	**223**
Total Operating & Maintenance Expenses	**2,982**	**2,091**	**2,787**	**2,999**
BALANCE	32	429	339	3

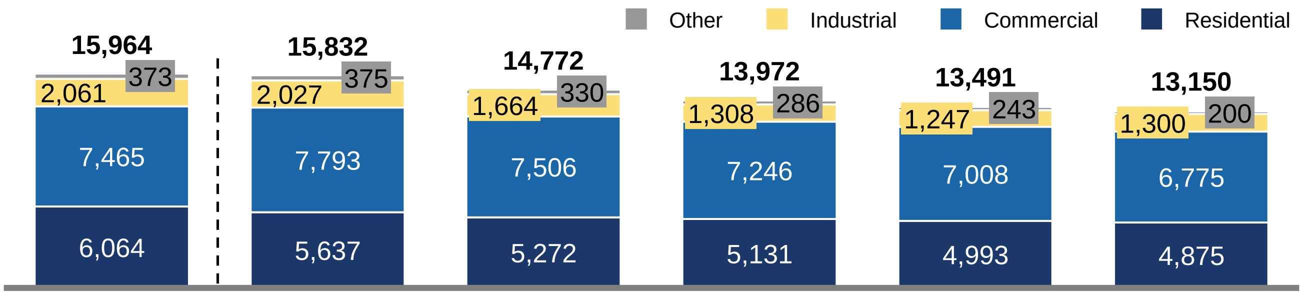
1 FY2019 Projected calculated based on actuals from June 2018-March 2019; full year values extrapolated based on 9-month actual spend.
2 Large variance primarily due to recovery of an impairment loss with the Government Development Bank
3 Revenue forecasted assumes Fuel & Purchase Power expense are balanced as a passthrough cost within the fiscal year (no over or under collection)
4 FY2020 Projected values are preliminary. Final amounts will be reflected in the FY2020 Certified Budget

Puerto Rico Electric Power Authority

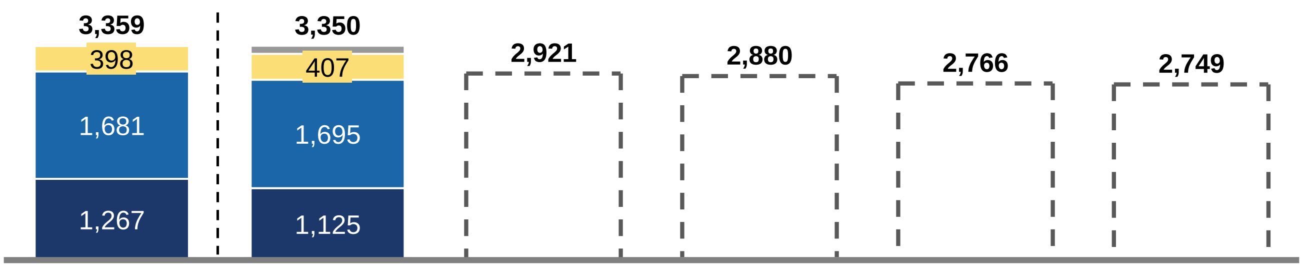
Overview of Forecasted Revenue

Forecast

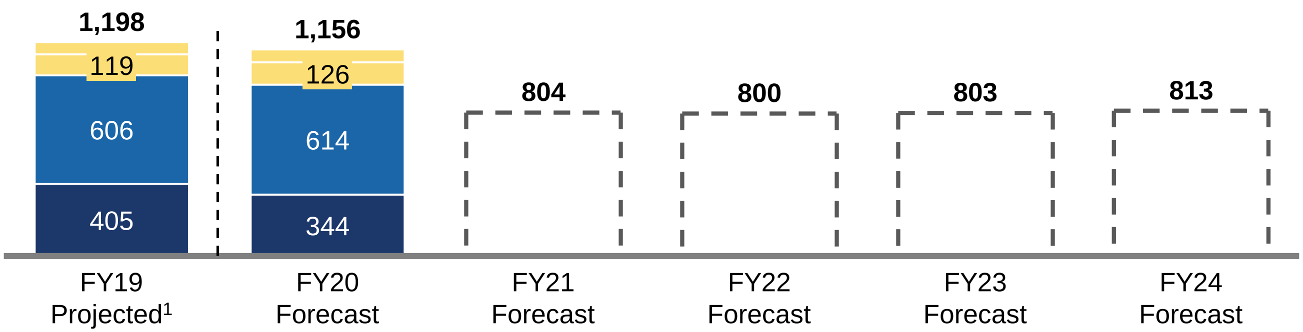
Electricity Consumption by Class (GWh)



Total Revenue by Class ($M)



Base Revenue by Class (Excludes Fuel and Purchase Power, CILT and Subsidies Pass-Through) ($M)



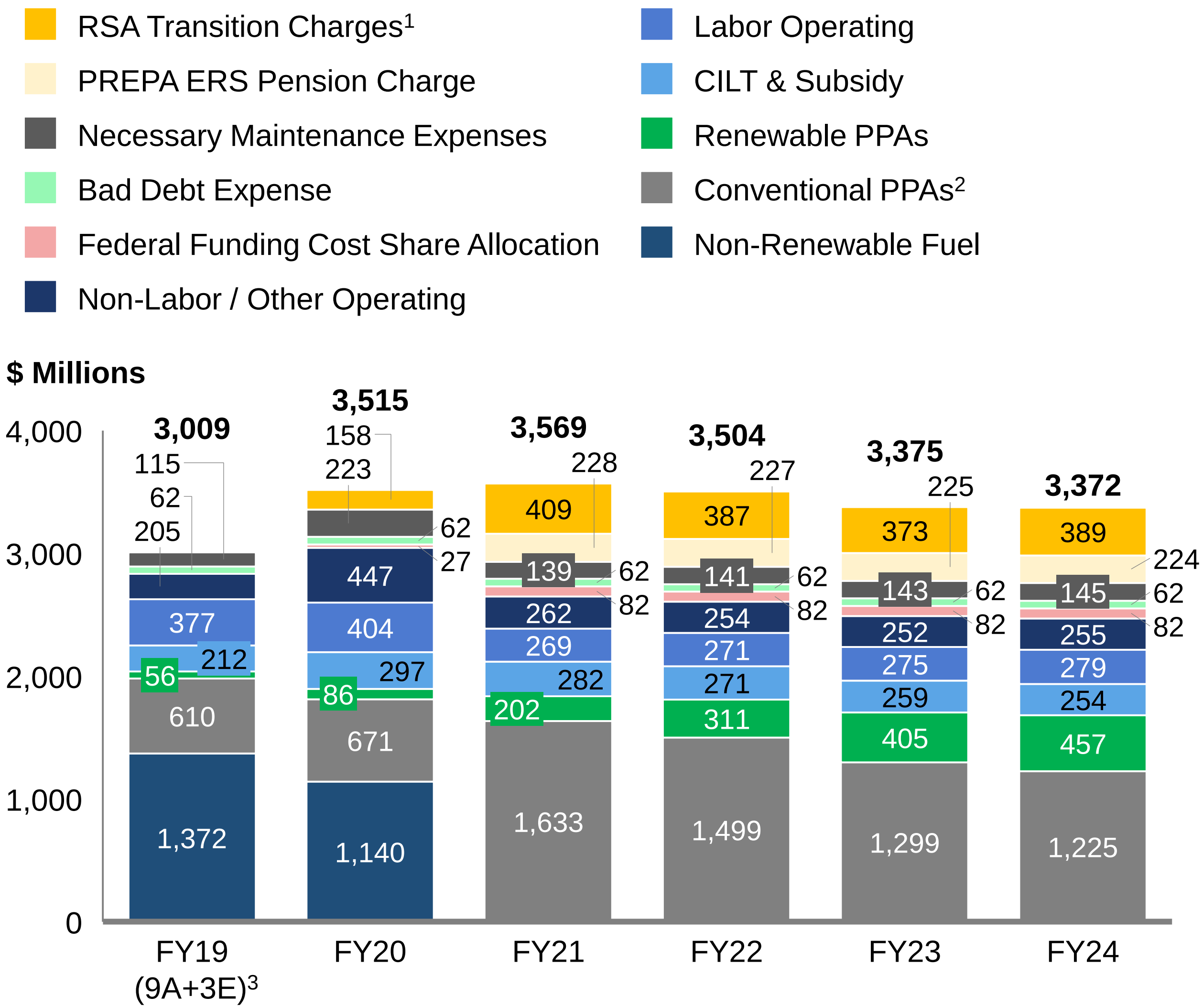
Key takeaways

- Residential and commercial segments represent PREPA's largest customer and revenue base
- Sales are anticipated to decline annually at a CAGR of -4.5% from FY2020 through FY2024, driven by declining population and weak macroeconomic activity
- FY2020 revenues from electricity sales, based on currently approved PREB rates, are expected to be $3,350M
- Actual FY2021-2024 revenue split by customer class will be dependent on future revisions to rate design and structure approved by PREB

1 Based on PREPA monthly reports as of March 2019. Full year values extrapolated based on nine month actuals

Puerto Rico Electric Power Authority

Overview of Forecasted Expenses



Key takeaways

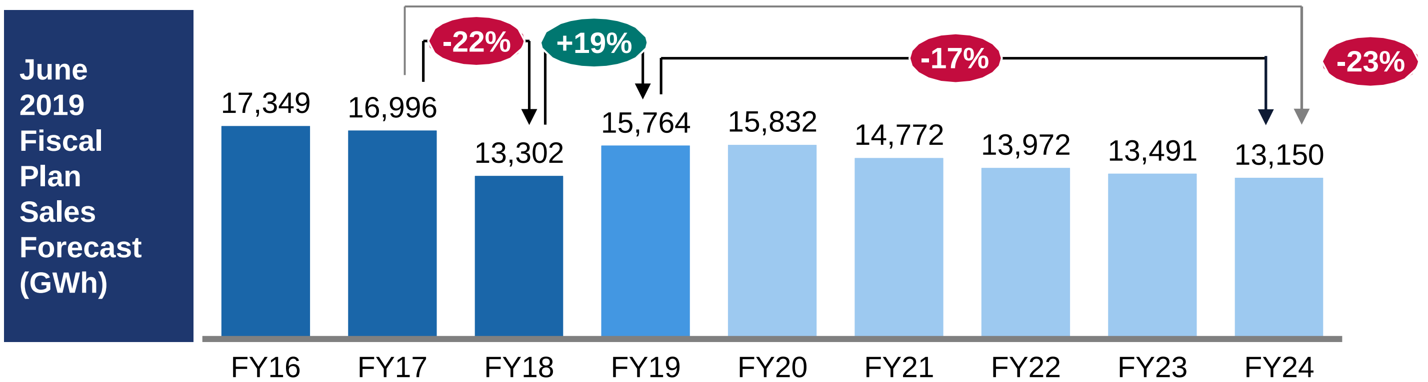
- FY2020 expenses are projected to be higher than FY2019 expected primarily for following reasons:
  - Higher spend in Necessary Maintenance Expenses (NME): PREPA has underspent in FY2019 by roughly half of what was budgeted. Such underspending leads to poor reliability and service quality. **PREPA will aim to prioritize NME and fully spend the allocated spend from FY2020** onwards, which will aim to **improve the system and service to customers**
  - New costs: allocation of federal cost-share, and legacy debt and PREPA ERS pension charges
  - Timing of certain expenses that will occur in FY2019-end, but are not captured here due to the extrapolation based on first 9 months spend

Notes
1 1 c/kWh Settlement Charge in FY2020 as per the RSA
2 Assumes PREPA generation assets (GenCo) contract with the entity operating the non-generation assets (GridCo); costs for GenCo included under Conventional PPAs starting FY2021
3 Nine-month actual spend extrapolated to calculate full year estimates. May not include charges that occur only towards the end of the year

Puerto Rico Electric Power Authority

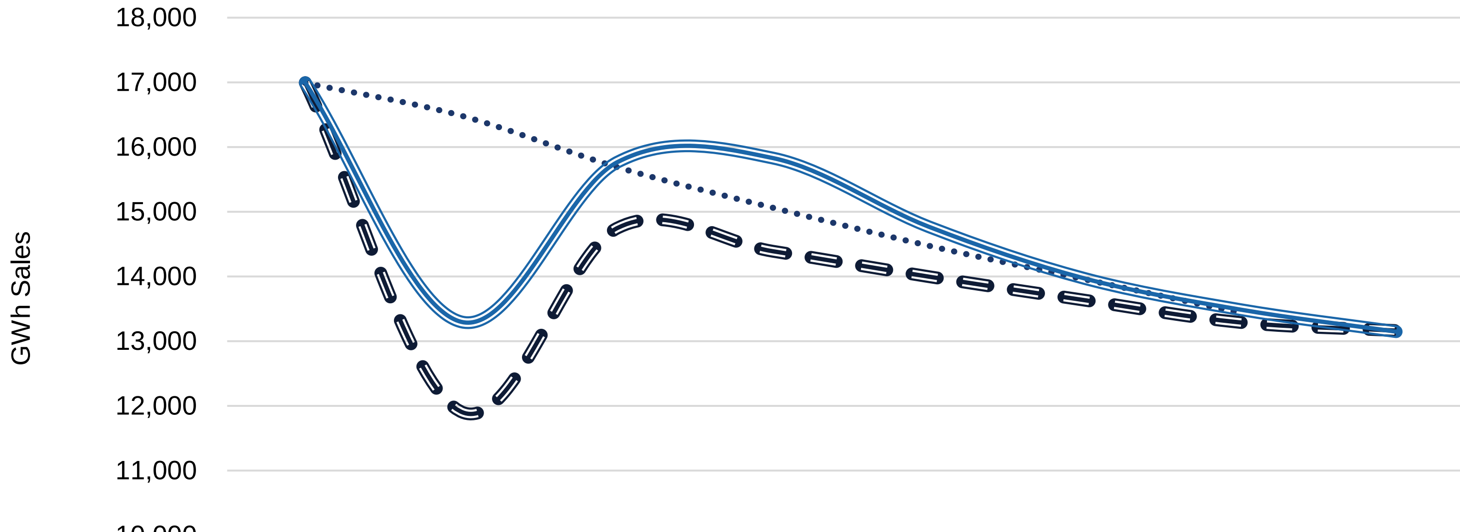
VII. Revenue

FY2020 Sales Forecasts



Post-storm sales have recovered substantially but expectations from various stakeholders and industry experts, including PREB and IRP advisors, project longer term declines in utility sales due primarily to impacts from secular trends in DG & EE.

SALES FORECASTS, COMPARED WITH PRIOR FISCAL PLANS



	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
April 2017 Fiscal Plan	16,996	16,489	15,693	15,064	14,476	13,957	13,438	
Aug 2018 Fiscal Plan	16,996	11,910	14,746	14,391	13,998	13,635	13,290	13,164
June 2019 Fiscal Plan	16,996	13,302	15,764	15,832	14,772	13,972	13,491	13,150

Puerto Rico Electric Power Authority

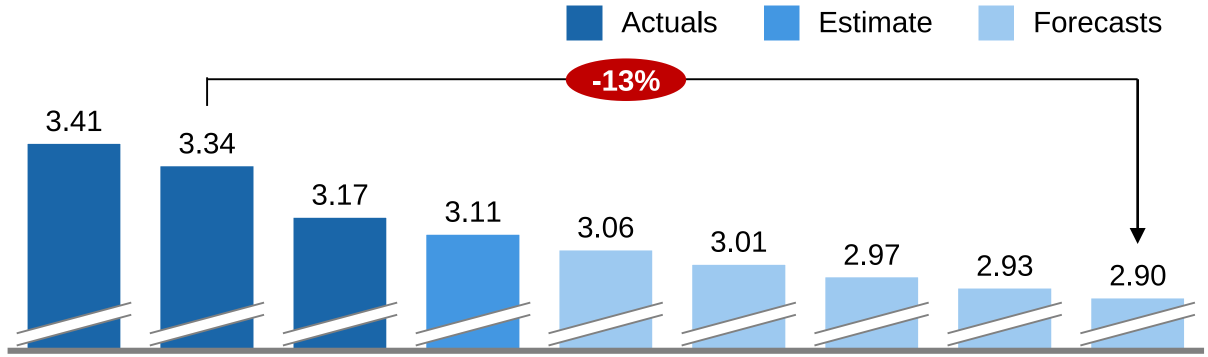
Overview of General Revenue Drivers and Assumptions

Input	Assumptions (discussion to follow)
Macroeconomic	Revised macroeconomic projections are developed by FOMB and certified in the May 9, 2019 Fiscal Plan for the Commonwealth of Puerto Rico, which include the combined effects of austerity, population decline, natural disaster recovery, and federal funding across all sectors of the island economy.
Energy Efficiency (EE) and Distributed Generation (DG)	Projections are based on the PREB mandated input of 2% annual incremental energy efficiency improvement starting in FY2021 and increased deployment of distributed generation (i.e., rooftop solar and combined heat and power generation).
Rates	PREB-approved permanent rate was implemented on May 1, 2019, and is in place for FY2020. Rates are presented two ways herein: 1) consistent with current rates, and 2) adjusting annually after FY2020 to meet projected revenue requirement.

Input	General Assumptions
Transformation	The Fiscal Plan financial projections assume that a T&D operator is in place by the end of FY2020.
Fuel & Purchased Power	Projections are based on the IRP prepared by PREPA and Siemens, including fuel price forecasts for natural gas at the Henry Hub, crude oil (West Texas Intermediate, "WTI"), oil-derivate products of diesel (No. 2 fuel oil), and residual fuel oil (No. 6 fuel oil with 0.5% sulfur). The Henry Hub benchmark is located in Erath, LA while the WTI benchmark is located in Cushing, OK. The diesel and residual fuel oil forecasts are based on New York Harbor pricing (per the contract terms for Costa Sur).
Ongoing Maintenance	Minimum maintenance expenditure requirements are included to keep the system operational. However, PREPA is expected to continue to require additional funds above historical average annual expenditure to repair the system and improve reliability to acceptable levels. Federal funding is assumed to be available to cover a substantial amount of capital required for system rebuild and maintenance.
Renewables / MATS Compliance	Steam generating units subject to MATS will be phased out and retired over the forecast period, replaced with new renewable and dual-fuel simple and combined cycle capacity per the IRP action plan.
Liquidity and Operations	No incremental external funding requirements or liquidity concerns are expected for FY2020, unless new near-term requirements develop. FY2021 and beyond will require adjustments to rate design and structure, including rate unbundling to account for desegregation of T&D and generation functions. Overall rates will also require periodic adjustments to incorporate latest trends in demand and cost of service to ensure rates appropriately reflect system costs.
Restoration / Rebuild Funding	Timing of potential expenditure and disbursement are still uncertain and are not included in the financial projections. Puerto Rico is requesting a cost-share adjustment for future FEMA program amounts under the Stafford Act, but potentially requires 10% cost-share match from PREPA. Puerto Rico secured Community Development Block Grant-Disaster Recovery (CDBG-DR) funding to cover Stafford Act cost-share match requirements. The projections in this Fiscal Plan also budget half of the required cost-share (5%) as part of PREPA's expenses, should the full CDBG-DR funding not materialize.

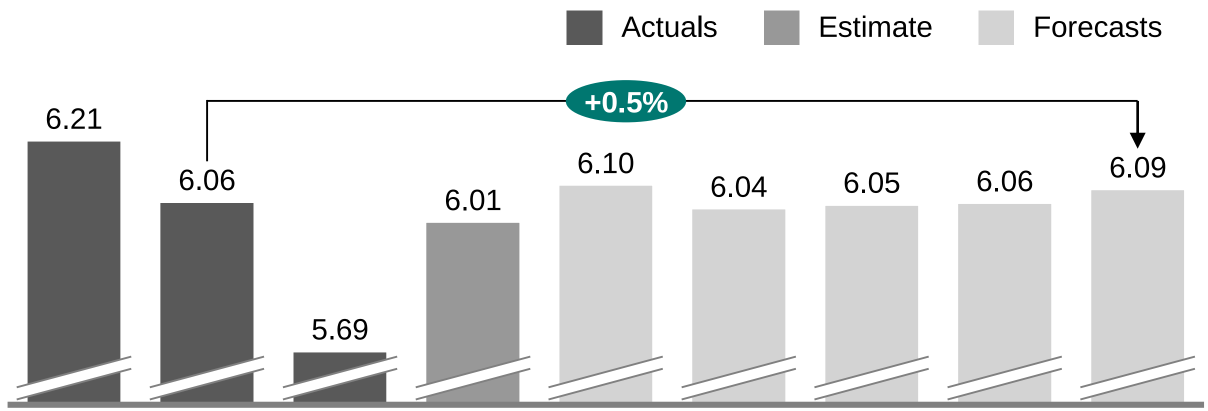
Macro Assumptions and Drivers

Population (millions)



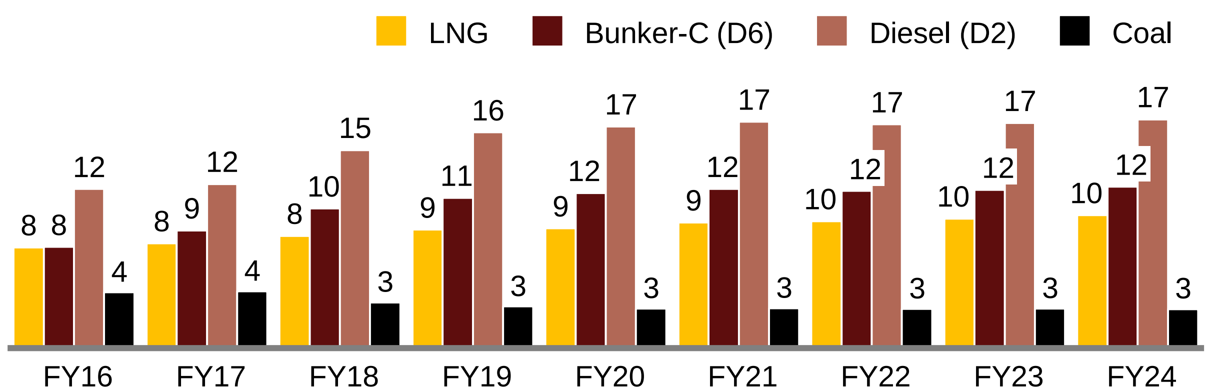
- The central government population forecast projects accelerated population decline due to the combined effects of economic depression and natural disaster impacts.

Economic Activity (GNP real USD)



- Rebound in economic activity is driven principally by federal funding for restoration, which creates short-term employment opportunities but does not stop the net migration from the island

Fuel price ($/MMBtu)



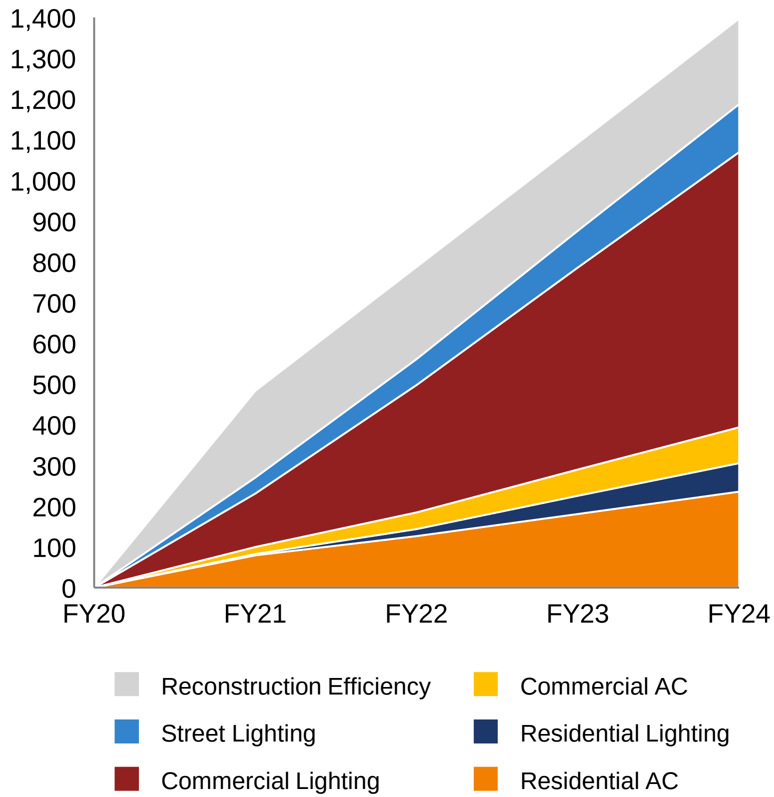
- Fuel prices are projected to remain roughly level over the forecast period, but due to moderate recent increases, fuel prices are expected to be well above recent historic lows seen in Fiscal Years 2016 and 2017

Puerto Rico Electric Power Authority

Overview of Energy Efficiency (EE) Assumptions

- PREPA is required under Act 57-2014 to adopt energy efficiency provisions, as defined by regulations approved by PREB (Regulation 9021), which facilitate 60% of electricity generated from fossil fuels to be generated in a highly efficient manner.
- The load forecast included in this fiscal plan assumes that PREPA meets Regulation 9021, which requires **2% per year** increment savings attributed to new efficiency programs for 10 years, to be carried out by the following EE programs:

Baseline Annual EE Savings by Measure
Energy Savings (GWh/year)



EE Program	Description	Assumption	Est. Cost Effectiveness Range (TRC[1])
Residential A/C	Incentivizes higher efficiency A/C systems in homes	Participation rates, energy savings, and program costs are based on comparable programs	3 – 5
Residential Lighting	Provides free LEDs to residential customers	Participation rates increase to 2.5% annually	4 – 6
Commercial A/C	Incentivizes high efficiency A/C systems in commercial buildings	A baseline average commercial A/C size is accurately assessed	1 – 2
Commercial Lighting	Incentivizes high efficiency lighting in commercial buildings	Annual kWh savings per participant is accurately assessed based on comparable programs	3 – 4
Public Street Lighting	Full conversion to LED lamps	Public funding is available to support this program	n/a
Residential Rebuilding Efficiency	Post-hurricane reconstruction with high efficiency cooling, lighting and appliances	Public funding is available to support this program	n/a

1: Total Resource Cost (TRC) test. The TRC is calculated as the present value of the avoided energy cost (energy savings x average rate) to the present value of the program costs. The present value was determined using a discount rate of 8.5% and 25 c/kWh. This rate is expected to decline and will be reassessed once the IRP is complete.
Source: Siemens, 2019 Integrated Resources Plan - Appendix 4 (forecast adjusted to account for program delays)

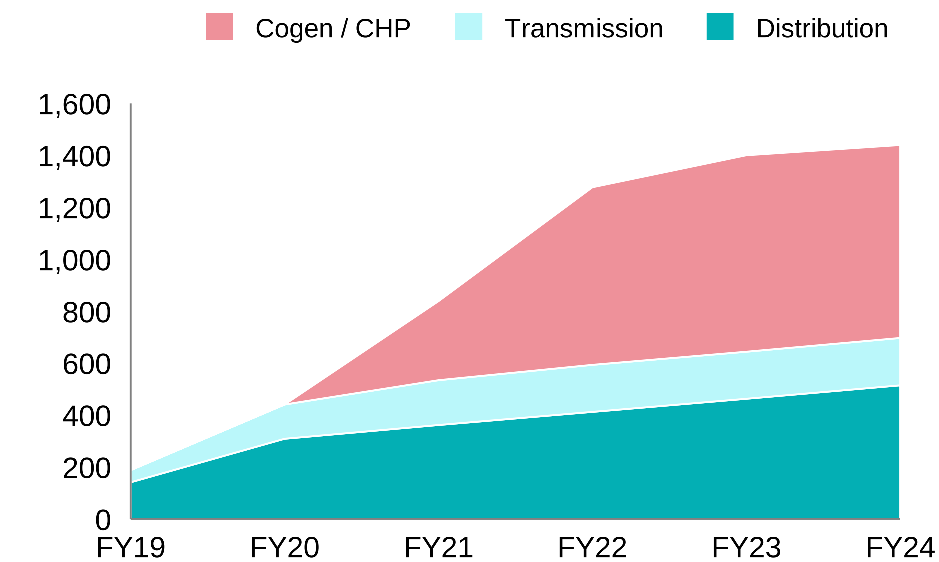
Puerto Rico Electric Power Authority

Overview of Distributed Generation (DG) Assumptions

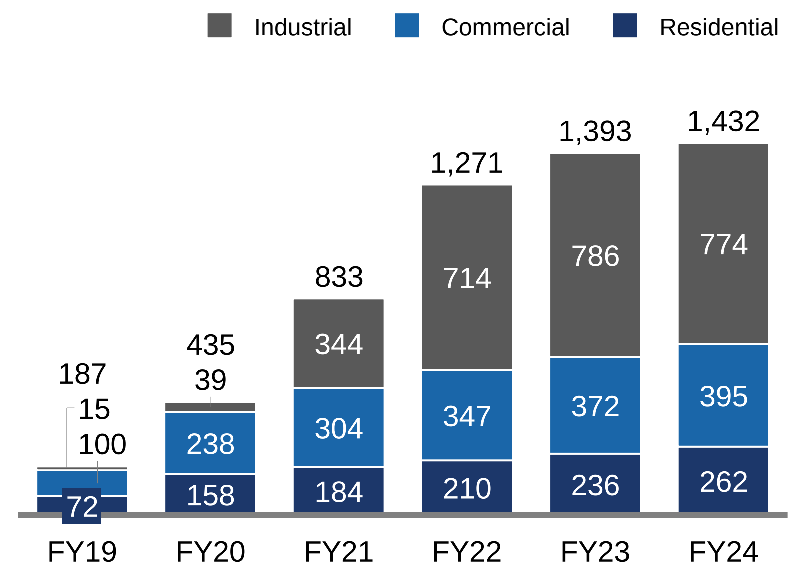
Based on analysis provided by Siemens in the IRP, the levelized cost of grid defection is higher than the cost of generation delivered to the customer, including the effect of losses until 2028 (when AES Coal retires). After 2028, grid defection cost is significantly lower than the total rate even before applying the non-bypassable transition charge component. This confirms the assumption in the DG forecast that the continuance of 'net-metering' rates will occur, and the customer side roof top PV adoptions will continue to be in line with the adoption rates observed to date.

Distributed Generation (GWh)

By type



By customer class

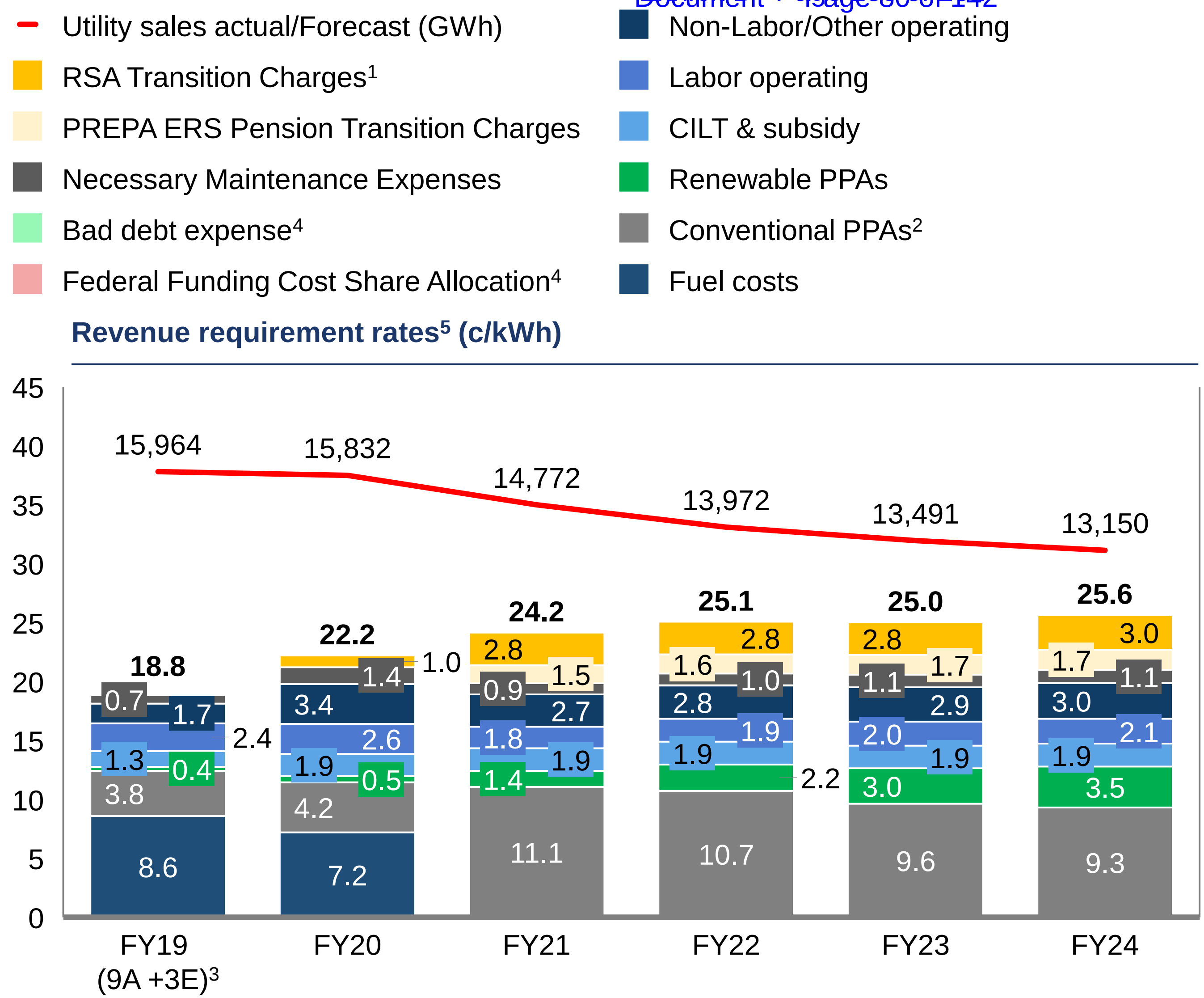


The Fiscal Plan assumes that DG will continue to rise due to customer perceptions on the need to control supply and the decreasing cost of DG technologies. As the transformation process advances, this trend is likely to continue, in parallel with distribution of the load, despite projected decreasing generation costs.

Source: 2019 Integrated Resource Plan - Appendix 4

Puerto Rico Electric Power Authority

Overview of Revenue Requirement Rates



Key takeaways

- Rates in FY2020 are higher than rates in FY2019 due to underspending by PREPA in FY2019 and FY2020 including RSA charge
- PREPA has underspent in maintenance expenses in FY2019, which could lead to poor reliability and service quality. **PREPA will aim to prioritize maintenance spending from FY2020** onwards
- New costs: allocation of federal cost-share, legacy debt and PREPA pension charges
- Successful implementation of operational measures, as well as timely roll out of renewables and natural gas generation provides greatest opportunities for cost reductions

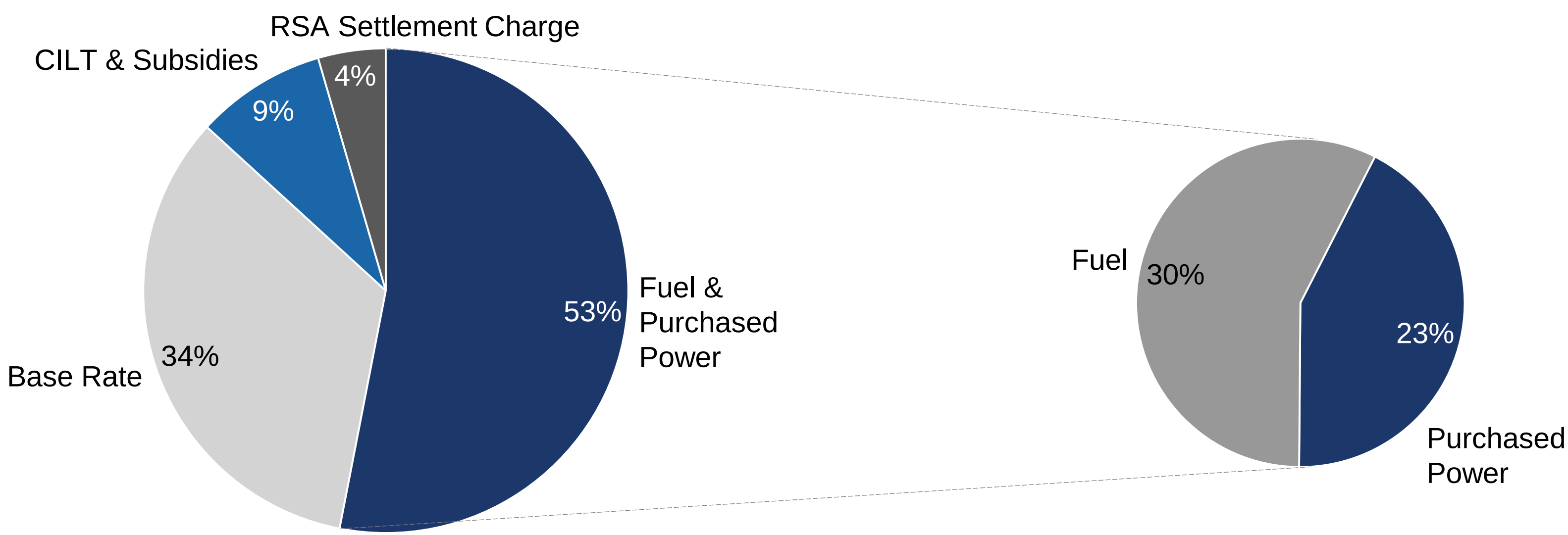
1 1 c/kWh Settlement Charge in FY2020 as per the PREPA Definitive RSA; RSA Transition Charge rate shown represents system average rates across the entire customer base. Since some customers are subsidized and therefore exempt from the charge, actual charges on bills of unsubsidized customer may be higher
2 Assumes PREPA generation assets (GenCo) contract with the entity operating the non-generation assets (GridCo); costs for GenCo included under Conventional PPAs starting FY2021
3 Nine-month actual spend extrapolated to calculate full year estimates. May not include charges that occur only towards the end of the year
4 Values not shown due to small magnitude
5 Projections do not assume compensation to new T&D operator

Puerto Rico Electric Power Authority

Overview of PREB-Approved Rates

Figures in c/kWh[1]	Resident-ial	Commerc-ial	Industrial	Overall
Base Rate Revenue	6.2	7.9	7.1	**7.5**
CILT & Subsidies Rider Revenue	2.0	1.8	1.2	**1.9**
Fuel & Purchased Power Revenue	12.3	12.3	12.3	**12.3**
RSA Settlement Charge[2]	1.0	1.0	1.0	**1.0**
Total Revenue	**21.4**	**23.0**	**22.8**	**22.1**
Average Client Bill per Month	$64.17	$1,120	$45,369	**$176**
Share of Revenues (%)	34%	53%	11%	

- PREPA's current rate structure is composed of three primary components – Base Rate, Fuel Adjustment and Purchased Power Adjustment Charges, and CILT & Subsidy rate riders. A fourth component includes RSA settlement charges
- Three primary categories of customers make up 98% of PREPA's revenue from electricity sales: Commercial (53%), Residential (34%) and Industrial (11%)[1]
- PREB approved a permanent rate structure in FY2017 and implemented it in FY2019. The PREB rate eliminated the 11% gross-up of fuel and purchased power adjustment charges, and created direct cost recovery / pass through rate riders in customer's bills to cover CILT and subsidies
- As a new O&M operator comes into place, the rate structure may potentially need to be revised from time to time to reflect changes in operating cost structure as well as incorporate developing trends in rate design

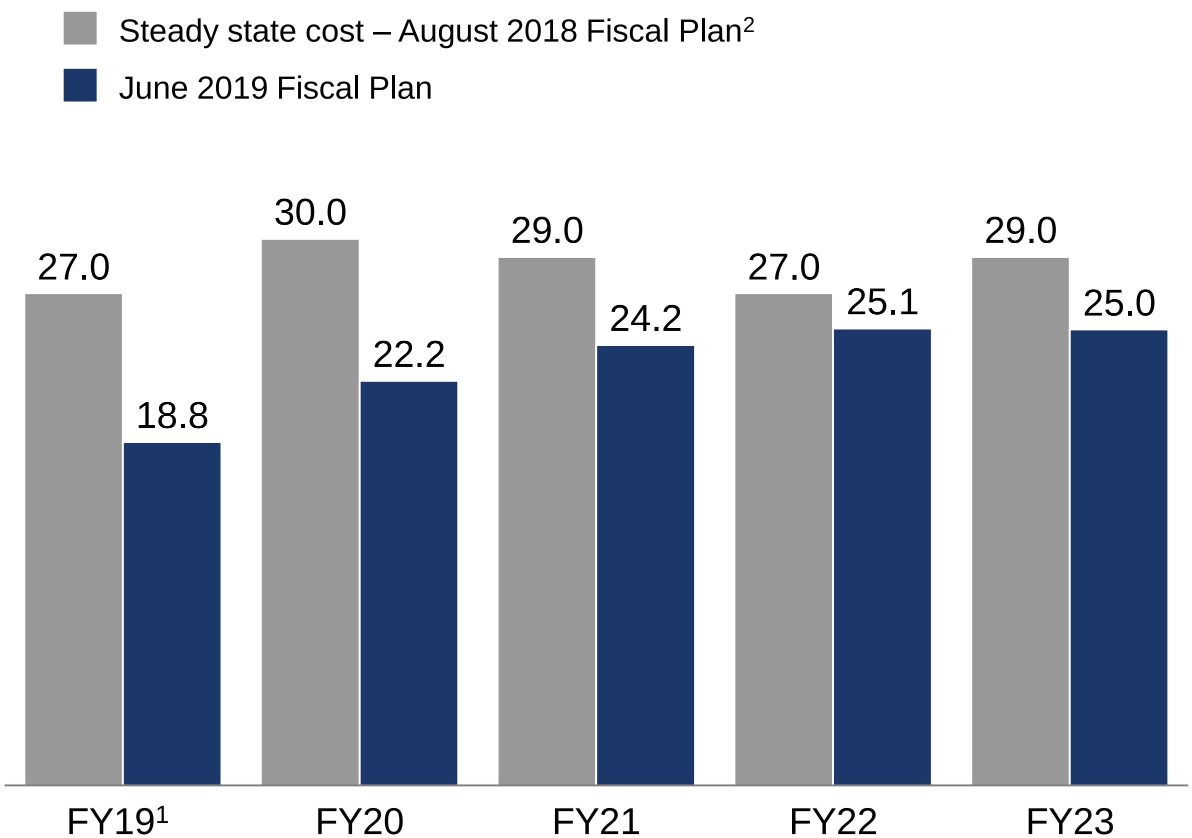


1 Values are illustrative; actual rates differ based on each customer's tariff. Rates for Agricultural, Public Lighting, and Other customers not shown (collectively represent 2% of revenues)
2 As per the RSA, Settlement Charge applicable in FY2020 only. Transition Charges become applicable starting in FY2021

Puerto Rico Electric Power Authority

Projected rates in this Fiscal Plan are on average 4.5c/kWh lower than steady state rates projected in the August 2018 Fiscal Plan

Rate comparison – Steady state cost from August 2018 Fiscal Plan vs. June 2019 Fiscal Plan, c/kWh



1 Current Fiscal Plan shows rates based on 9 month actual spend, which are then extrapolated to calculate full year estimates. May not include charges that occur only towards the end of the year

2 PREPA FY2019 Certified Fiscal Plan (August 1, 2018), Page 38. Assumes grid investments are funded by disaster recovery funds. Potential for higher rates should these investments be financed through debt or directly through rates.

Key takeaways

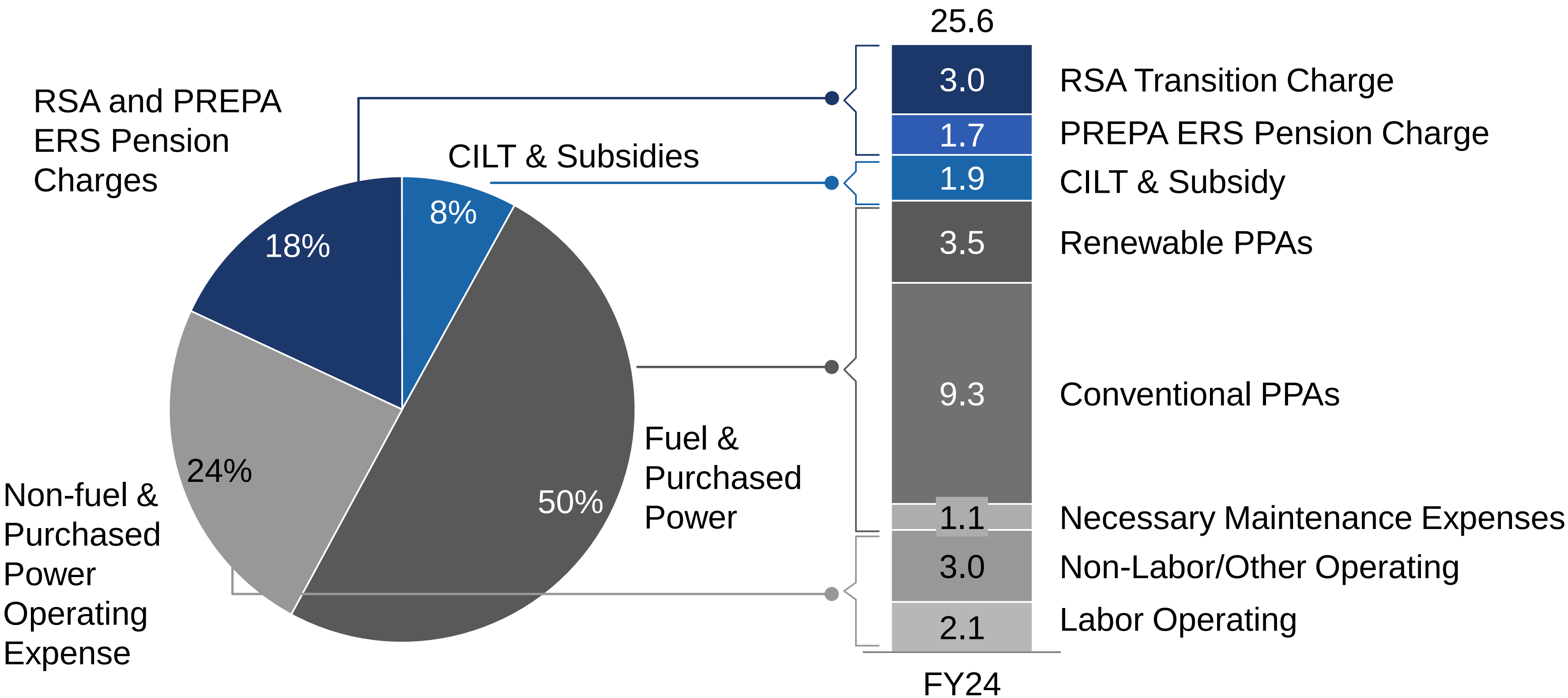
- The steady state scenario, which assumed ongoing operations of PREPA as is without any major action, showed that rates would increase as high as 30 c/kWh in the next few years
- Rates projected in this Fiscal Plan are lower by roughly 4.5 c/kWh, and show a more positive outlook due to a number of actions already taken, and other actions that will be taken, such as:
  - Implementation of the Definitive RSA with key stakeholders
  - Conversion of San Juan 5 & 6 and Costa Sur
  - Planned delivery of Solar PPOAs in FY2021 and beyond

Puerto Rico Electric Power Authority

Largest opportunities for rate reductions lie in generation and operation costs

Percentage of total costs by category

FY2024 Detailed breakdown of category, c/kWh



- Generation, operational and maintenance costs, and CILT & subsidies related costs represent 82% of the rate structure and therefore hold the largest opportunities for cost and rate reductions through transformation initiatives

Puerto Rico Electric Power Authority

Key risks could significantly impact ratepayers beyond current rate projections

Potential impact beyond projected rates (c/kWh)

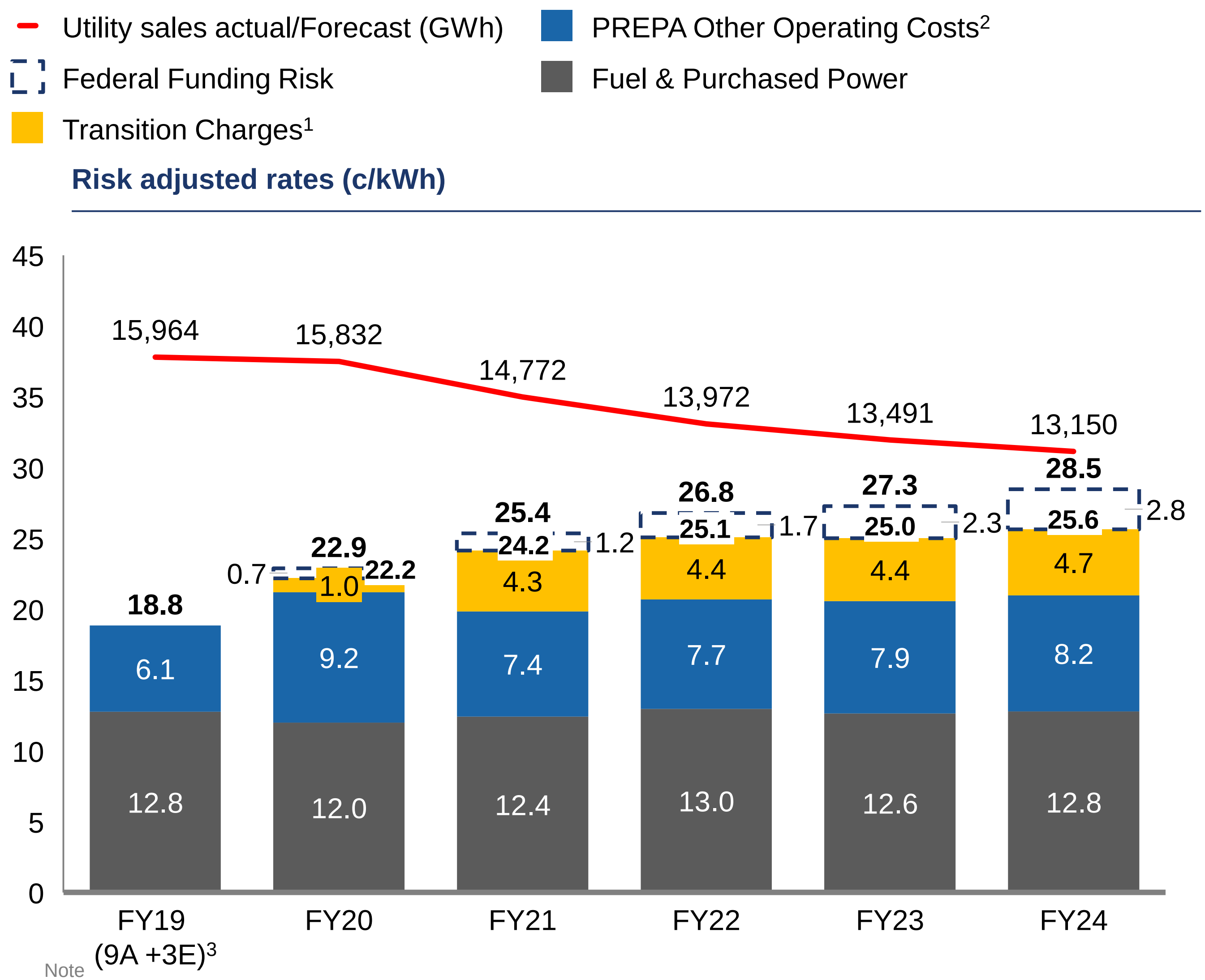
Risk	Description of issue	FY20	FY21	FY22	FY23	FY24
Federal funding	▪ Execution of the **modern grid is key to lower rates** in the future ▪ Current rates assume **grid modernization** is assumed to be **90% funded by FEMA** ▪ **Scenario shown:** FEMA funds 45% of the grid modernization and ratepayer funds the remaining spend	0.69	1.20	1.74	2.28	2.82
Conventional Fuel and Purchase Power	▪ PREPA assumes fuel costs from the IRP ▪ IRP model assumes an **ideal dispatch curve** from generation that **may not entirely be supported by the current grid** infrastructure ▪ **Scenario shown:** Assuming dispatch continues with rates currently achieved by PREPA on a (c/kWh) basis	1.26	1.28	1.12	1.13	1.08
Renewables PPOA[1]	▪ IRP assumes a cost of new solar PPO starting in FY21 at ~$63/MWh ▪ **Scenario shown:** Assuming PREPA is unable to procure solar power below $100/MWh PPOA for the period of the fiscal plan		0.28	0.58	0.83	0.97
Total		1.95	2.75	3.44	4.25	4.88

1 Assumes all PPOAs signed at $100/MWh escalated annually at 1.5%

Puerto Rico Electric Power Authority

Case:17-04780-LTS Doc#:1428 Filed:07/02/19 Entered:07/02/19 23:24:35 Desc: Main Document Page 85 of 142

Overview of Costs to Ratepayer with Federal Funding Risk



Key takeaways

- Rates forecasted[4] in the June 2019 Fiscal Plan **could rise higher should certain assumptions not hold**
- In an extreme case scenario, **rates in FY2024 could be higher by ~3 c/kWh** if the following occurs:
  - 50% of federal funding (45% FEMA and 5% CDBG) does not materialize
- Other risks that could materialize include:
  - Higher F&PP costs if PREPA fails to implement economic dispatch
  - PREPA fails to negotiate renewable PPOAs at competitive rates

Note

1 For simplicity, the PREPA Definitive RSA Transition Charge plus an estimated additional charge for PREPA ERS Pension liability are shown together. These charges are independent from each other and are to be assessed on customer bills separately.

2 Includes CILT & Subsidies

3 Nine-month actual spend extrapolated to calculate full year estimates. May not include charges that occur only towards the end of the year

4 Projections do not assume compensation to new T&D operator

Puerto Rico Electric Power Authority

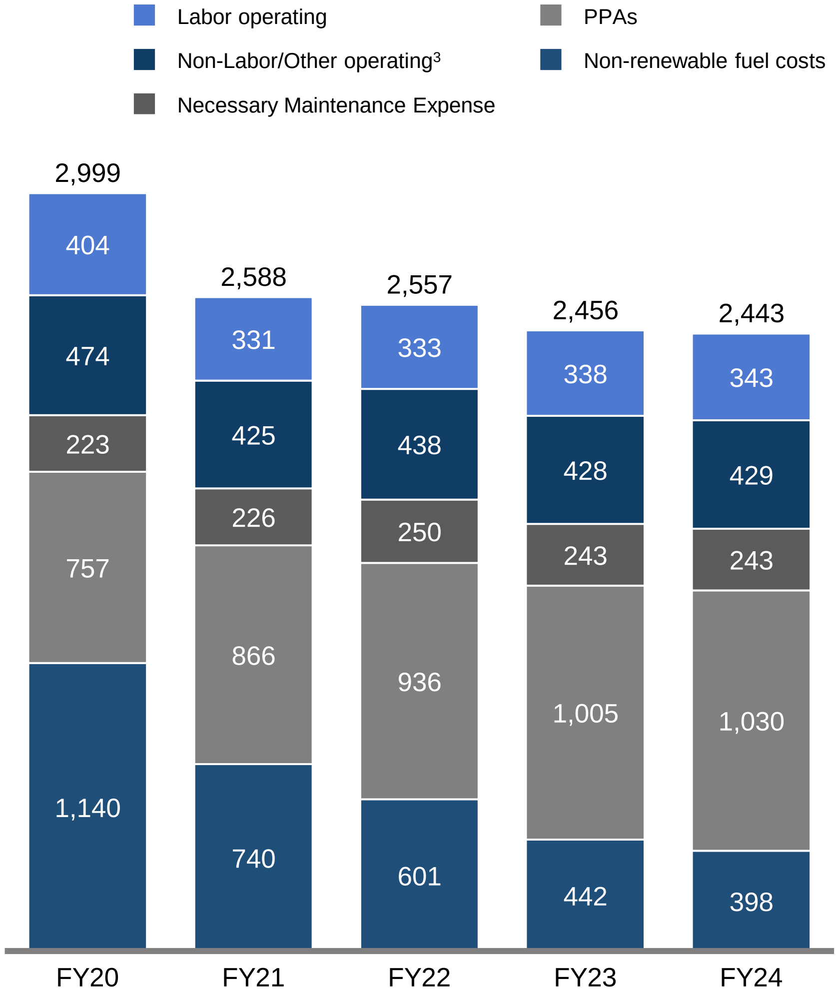
VIII. Expenses

a. Generation (“GenCo”)

Conceptual Overview of Post-Transaction Split into GenCo and GridCo[2]

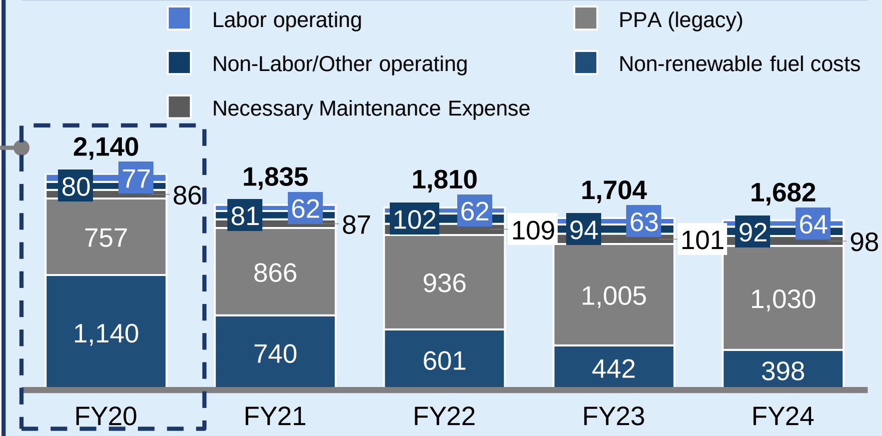
Current State

Expense forecast for WholeCo: GridCo and GenCo ($M)[1]

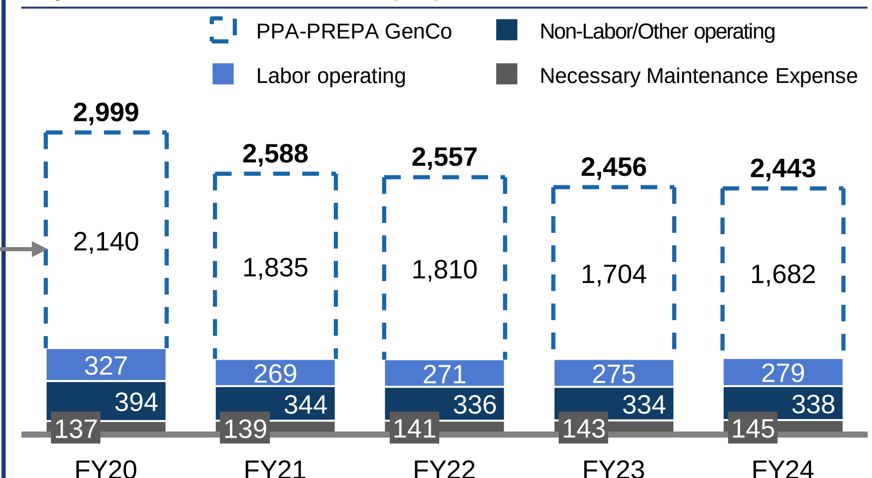


Post-Transaction State

Expense forecast for GenCo ($M)



Expense forecast for GridCo ($M)

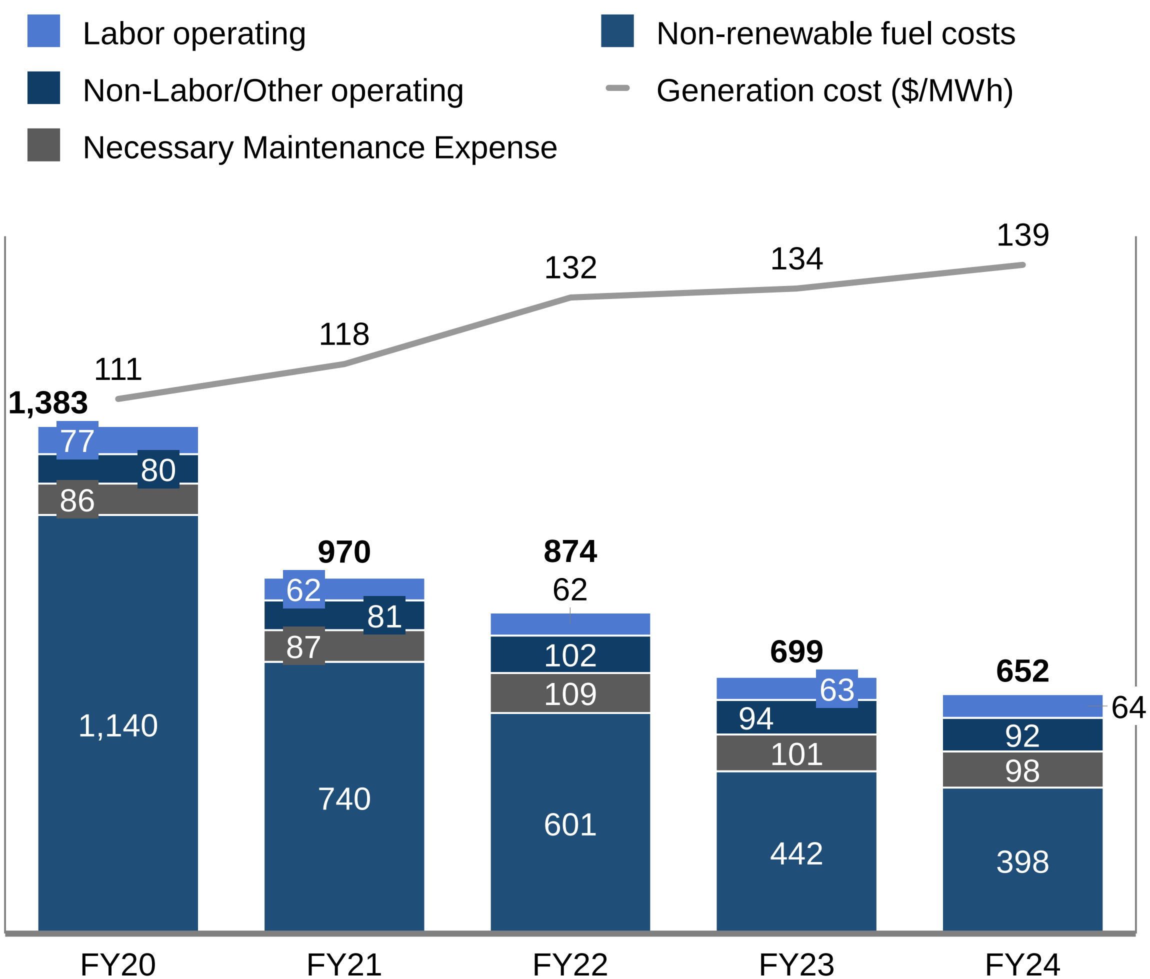


1 Purchased Power costs for PPAs between GridCo and GenCo not shown to avoid double counting.
2 New reporting structure for PREPA, split into GridCo and GenCo, assumed to begin in FY21 for the purposes of presentation and discussion in this Fiscal Plan
3 Bad debt expense not included

Puerto Rico Electric Power Authority

Overview of GenCo Expenses

Expense forecast for GenCo ($M)[1]



1 Conventional and renewable PPA costs not shown above, as they are outside of GenCo

Key takeaways

- Generation costs from PREPA assets decline overtime due to higher penetration of renewables, new gas generation, and overall lowering demand
- Despite lowering overall costs, per unit generation cost rise due to lower demand
- Realization of lower fuel costs and an optimal generation mix starting in FY2021 is contingent on the successful execution of several initiatives such as economic dispatch capability, vegetation management, and improvement in grid/generation reliability. PREPA has initiated these measures in FY2019 as part of the transformation
- Labor costs do not include pensions starting in FY2021, as they are accounted for in the PREPA ERS Pension Charge

Puerto Rico Electric Power Authority

Overview of Drivers and Assumptions for GenCo Expenses

Input	General Assumptions
Transformation	The Fiscal Plan financial projections assume that a T&D operator is in place by the end of FY2020.
Renewables / MATS Compliance	Steam generating units subject to MATS will be phased out and retired over the forecast period, replaced with new renewable and dual-fuel simple and combined cycle capacity per the IRP action plan.
Liquidity and Operations	No incremental external funding requirements or liquidity concerns are expected for FY2020, unless new near-term requirements develop. FY2021 and beyond will require adjustments to rate design and structure, including rate unbundling to account for desegregation of T&D and generation functions. Overall rates will also require periodic adjustments to incorporate latest trends in demand and cost of service to ensure rates appropriately reflect system costs.
Restoration / Rebuild Funding	Timing of potential expenditure and disbursement are still uncertain and are not included in the financial projections. Puerto Rico is requesting a cost-share adjustment for future FEMA program amounts under the Stafford Act, but potentially requires 10% cost-share match from PREPA. Puerto Rico secured Community Development Block Grant-Disaster Recovery (CDBG-DR) funding to cover Stafford Act cost-share match requirements. The projections in this Fiscal Plan also budget half of the required cost-share (5%) as part of PREPA's expenses, should the full CDBG-DR funding not materialize.
Line Item	**Line Item Assumptions**
Fuel & Purchased Power	▪ Projections are based on the IRP prepared by PREPA and Siemens, including fuel price forecasts for natural gas at the Henry Hub, crude oil (West Texas Intermediate, "WTI"), oil-derivate products of diesel (No. 2 fuel oil), and residual fuel oil (No. 6 fuel oil with 0.5% sulfur). The Henry Hub benchmark is located in Erath, LA while the WTI benchmark is located in Cushing, OK. The diesel and residual fuel oil forecasts are based on New York Harbor pricing (per the contract terms for Costa Sur). ▪ Sub-categories: Fuel, Purchased Power – Conventional, Purchased Power – Renewable
Labor Operating	▪ Assumes 1.5% growth in FY2021 – 2024 for expected inflation and to stabilize workforce exodus ▪ Pension & Benefits expenses are based on historic spending levels and performance improvement initiatives such as medical plan reform ▪ Starting in FY2021 all pension costs are included in the PREPA ERS Pension Charge ▪ Sub-categories: Salaries & Wages, Pension & Benefits, Overtime Pay, and Overtime Benefits. Overtime costs reduced by 25% in FY2021 and another 25% in FY2022, with equivalent amount of full-time employees hired to compensate
Non-Labor / Other Operating	▪ FY2020 is based on budget itemized requests ▪ FY2021 and beyond is projected using historic spending levels and assumes 1.5% growth (same as above) ▪ Sub-categories: Materials & Supplies, Transportation, Property & Casualty Insurance, Retiree Medical Benefits, Security, IT Service Agreements, Banking Services, Utilities & Rents, Legal Services, Communications, Professional & Technical Outsourced Services, Regulation and Environmental Inspection, Other Miscellaneous, Restructuring, Other Expenses
Maintenance	▪ Minimum maintenance expenditure requirements are included to keep the system operational. However, PREPA is expected to continue to require additional funds above historical average annual expenditure to repair the system and improve reliability to acceptable levels. Federal funding is assumed to be available to cover a substantial amount of capital required for system rebuild and maintenance.

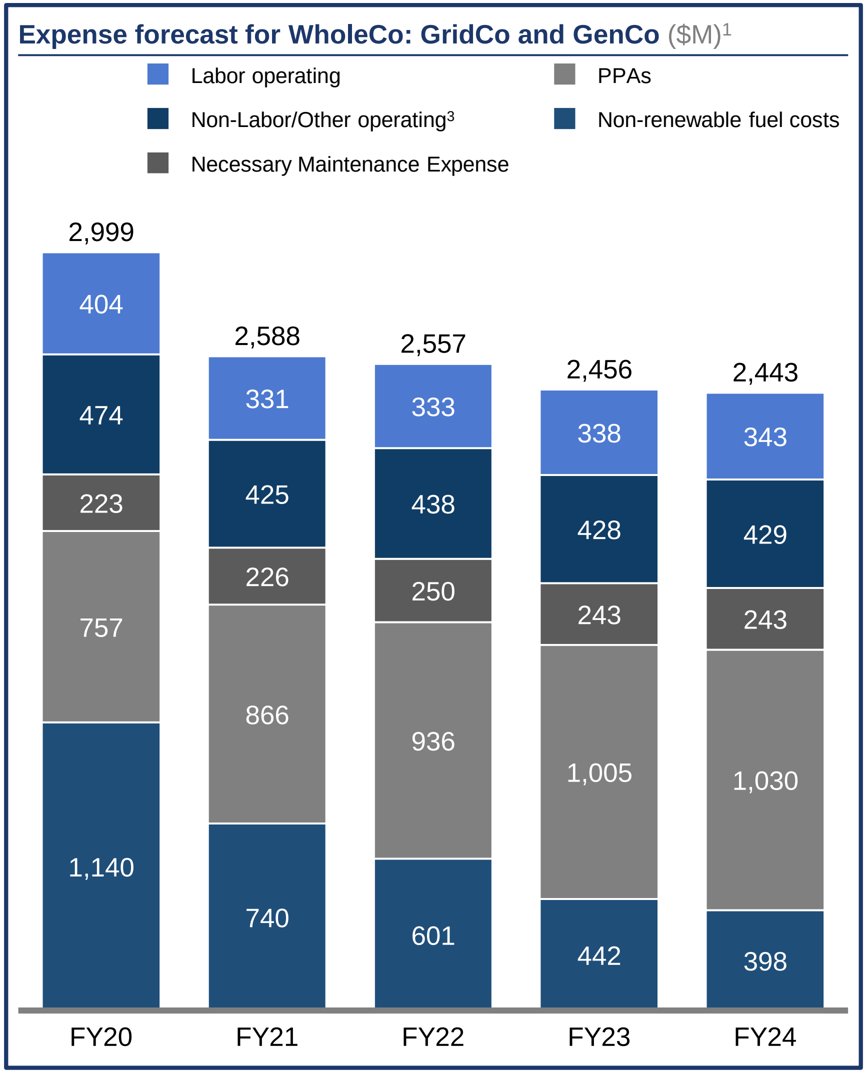
Puerto Rico Electric Power Authority

VIII. Expenses

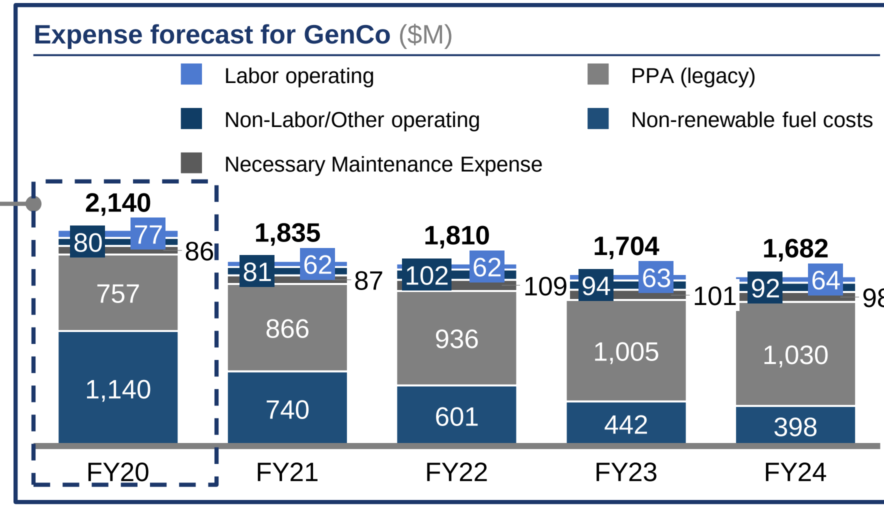
b. Non-Generation (“GridCo”)

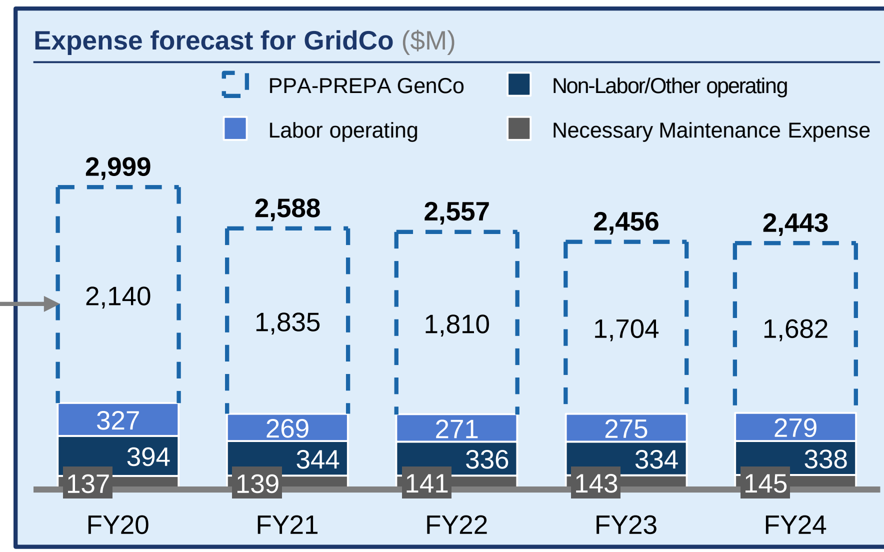
Conceptual Overview of Post-Transaction Split into GenCo and GridCo²

Current State



Post-Transaction State



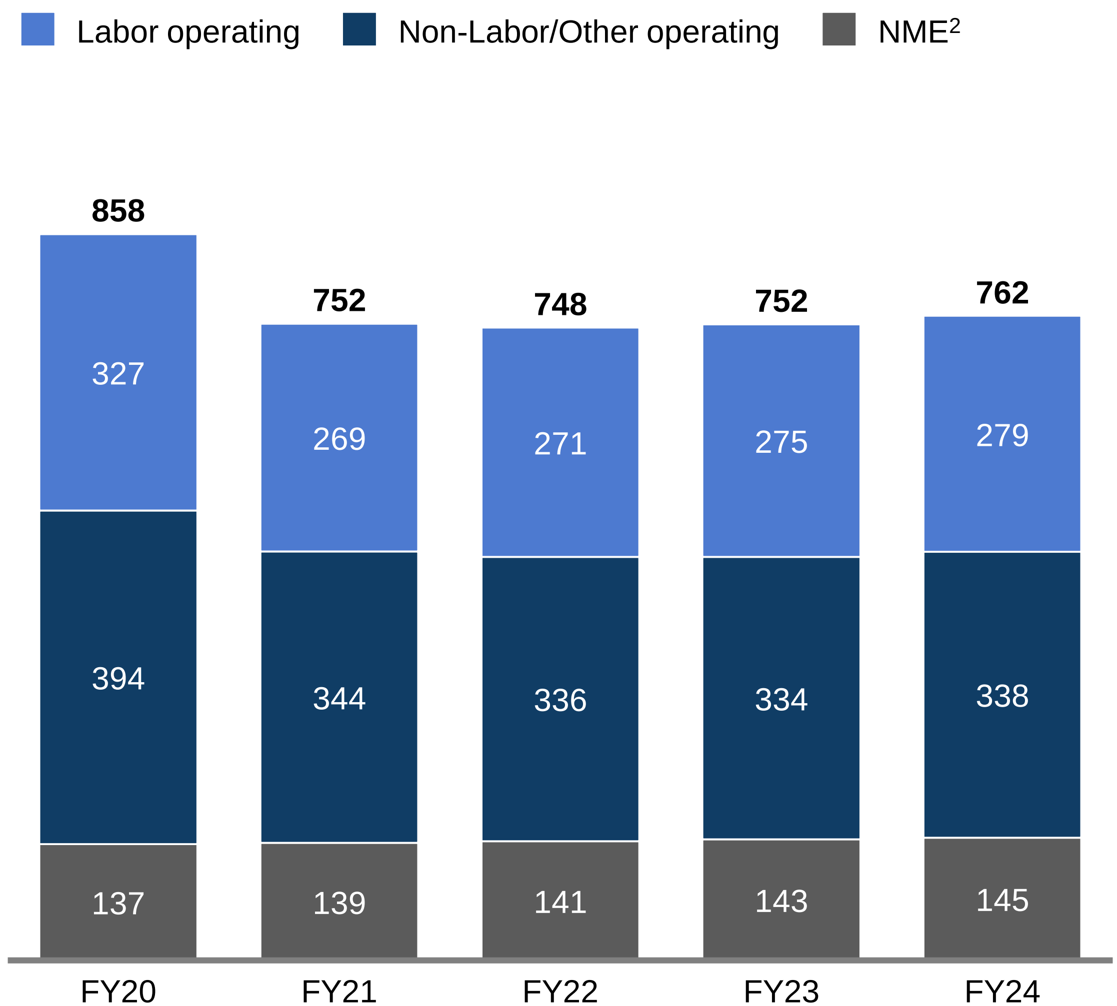


1 Purchased Power costs for PPAs between GridCo and GenCo not shown to avoid double counting.
2 New reporting structure for PREPA, split into GridCo and GenCo, assumed to begin in FY21 for the purposes of presentation and discussion in this Fiscal Plan
3 Bad debt expense not included

Puerto Rico Electric Power Authority

Overview of GridCo Expenses

Expense forecast for GridCo ($M)[1]



Key takeaways

- Labor costs reflect savings from reducing spending on overtime salaries and benefits
  - PREPA will develop a detailed plan to reducing overtime in FY2020-2022, relative to FY2019 spend
- Non-labor costs are higher in FY2020 than in other years due to Title III restructuring costs and P3 Authority Transaction costs
- Non-labor costs account for budgeting for half of the cost-share needed for FEMA funds, should the full amount of anticipated CDBG funding be unavailable
- NME[2] expenses in FY2020 are primarily driven by improvements to distribution lines (above ground and underground); $20M is also allocated to replacement of meters to improve billings

1 Costs shown for core GridCo operations. PPA related costs, or any other GenCo related costs, not shown here
2 Necessary Maintenance Expenses

Puerto Rico Electric Power Authority

Overview of Drivers and Assumptions for Grid Cost Expenses

Input	General Assumptions
Transformation	The Fiscal Plan financial projections assume that a T&D operator is in place by the end of FY2020. Cost of Service does not include additional funding for the T&D operator management fee
Renewables / MATS Compliance	Steam generating units subject to MATS will be phased out and retired over the forecast period, replaced with new renewable and dual-fuel simple and combined cycle capacity per the IRP action plan.
Liquidity and Operations	No incremental external funding requirements or liquidity concerns are expected for FY2020, unless new near-term requirements develop. FY2021 and beyond will require adjustments to rate design and structure, including rate unbundling to account for desegregation of T&D and generation functions. Overall rates will also require periodic adjustments to incorporate latest trends in demand and cost of service to ensure rates appropriately reflect system costs. Debt Service Obligation accounts for 2019 RSA Agreed Terms and estimated PREPA ERS pension liability amortized over 40 years
Restoration / Rebuild Funding	Timing of potential expenditure and disbursement are still uncertain and are not included in the financial projections. Puerto Rico is requesting a cost-share adjustment for future FEMA program amounts under the Stafford Act, but potentially requires 10% cost-share match from PREPA. Puerto Rico Secured Community Development Block Grant-Disaster Recovery (CDBG-DR) funding to cover Stafford Act cost-share match requirements. The projections in this Fiscal Plan also budget half of the required cost-share (5%) as part of PREPA's expenses, should the full CDBG-DR funding not materialize.

Line Item	Line Item Assumptions
Labor Operating	▪ Assumes 1.5% growth in FY2021 – 2024 for expected inflation and to stabilize workforce exodus ▪ Pension & Benefits expenses are based on historic spending levels and performance improvement initiatives such as medical plan reform ▪ Starting in FY2021 all pension costs are included in the PREPA ERS Pension Charge ▪ Sub-categories: Salaries & Wages, Pension & Benefits, Overtime Pay, and Overtime Benefits. Overtime costs reduced by 25% in FY2021 and another 25% in FY2022, with equivalent amount of full-time employees hired to compensate
Non-Labor / Other Operating	▪ FY2020 is based on budget itemized requests ▪ FY2021 and beyond is projected using historic spending levels and assumes 1.5% growth (same as above) ▪ Sub-categories: Materials & Supplies, Transportation, Property & Casualty Insurance, Retiree Medical Benefits, Security, IT Service Agreements, Banking Services, Utilities & Rents, Legal Services, Communications, Professional & Technical Outsourced Services, Regulation and Environmental Inspection, Other Miscellaneous, Restructuring, Federal Funding Cost Share Allocation, and Other Expenses
Maintenance	▪ Minimum maintenance expenditure requirements are included to keep the system operational. However, PREPA is expected to continue to require additional funds above historical average annual expenditure to repair the system and improve reliability to acceptable levels. Federal funding is assumed to be available to cover a substantial amount of capital required for system rebuild and maintenance.

Puerto Rico Electric Power Authority

VIII. Expenses

c. Resiliency & Resource Planning

The Integrated Resource Plan

PREPA has prepared an Integrated Resource Plan for PREB review and approval, which will establish strategies for meeting electric energy demands over the next 20 years

- As required by the 2014 Transformation Act and the Energy Policy Act, PREPA has prepared and is currently refining an IRP that will identify resources, both conventional and renewable, as well as energy efficiency and conservation measures, for satisfying demand for electric energy in Puerto Rico
- The PREB found the initial version of the IRP filed on February 13, 2019 to be deficient in certain respects, and required PREPA to make various revisions and consider certain additional scenarios
- PREPA and its advisors have revised the IRP to address the identified deficiencies and certain additional PREB requirements
- A revised IRP was filed on June 7, 2019 and is pending regulatory approval. It evaluates a variety of scenarios, each of which lays out a combination of system requirements needed to serve load, commodity prices, capital costs, total system costs, and risks that influence the choice of resources to serve future electric load
- The IRP scenarios include the Energy System Modernization Plan (ESM), and the Preferred Resource Plan, which aim to direct further investment in and development of Puerto Rico's electric utility system
- The final version of the IRP should be approved and adopted by end of FY2019

Puerto Rico Electric Power Authority

Integrated Resource Plan Recommendations

The following IRP recommendations form the basis of the June 2019 Fiscal Plan:

1. **Maximize solar photovoltaic (PV) generation additions in the early years of the plan**
   - With low renewable prices and high adoption, lower costs of supply can be achieved
   - Early installation benefit from the Investment Tax Credit
   - Declining demand favors early installations to maximize the life benefit
   - Volumes are very high and may stretch the ability to operate the system, but technology is improving rapidly

2. **Install 440 MW to 900 MW of battery energy storage in the first four years of the plan**
   - Early installation supports PV integration and provides operating reserves and ancillary services
   - Declining demand favors early installation to supply greater lifetime load

3. **Convert San Juan 5&6 Combined Cycle (CC) to burn natural gas**
   - Selected by the LTCE[1] in every scenario and sensitivity for which it is available

4. **Develop a land-based LNG terminal to supply 1 or 2 new 302 MW Palo Seco CCGT and San Juan 5&6 units**
   - Selected by the LTCE in every scenario and sensitivity for which it is available
   - The land-based LNG allows developing flexible and economic resources close to loads

5. **Develop a new 300 MW CCGT at Costa Sur or extend a renegotiated contract with EcoEléctrica**
   - New 303 MW CCGT always displaces EcoEléctrica if current contract fixed payments are maintained

6. **Add smaller Gas Turbines (GTs) capable of burning containerized natural gas (18 GTs x 23 MW).**
   - Provide the required minimal thermal supply to the MiniGrids in the short term
   - Together with storage to manage the integration of solar PV

7. **Ship-Based LNG terminal at Mayagüez to supply the 4x50 MW Aeros and possibly a new 300 MW CCGT.**
   - Plans should be made for this terminal as a minimum regret strategy

-

1 Long Term Capacity Expansion (LTCE)

Puerto Rico Electric Power Authority

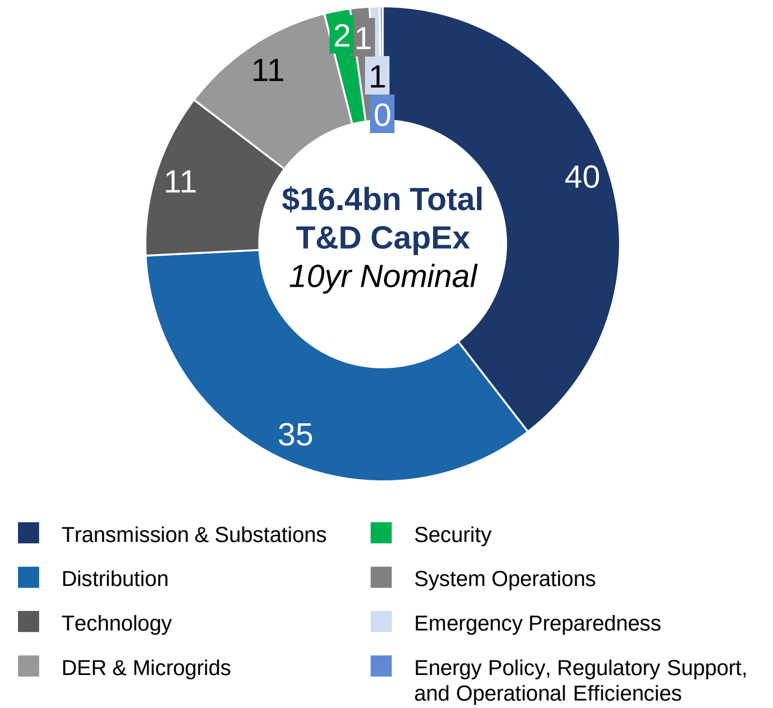
T&D System Transformation Overview

PREPA's T&D infrastructure will be restored and modernized to support the integration of renewables and distributed resources as well as overall efficiency, reliability, and resiliency.

T&D Restoration and Rebuild Overview

- PREPA and relevant stakeholders have identified nine key areas of focus for T&D restoration and rebuild
  1. Transmission and substations
  2. Distribution
  3. Distributed energy resources and MiniGrids /
  4. microgrids
  5. Technology
  6. Security (both physical and cyber)
  7. System operations
  8. Emergency response and preparedness
  9. Energy policy and regulatory support
  - Operational efficiency
- Resources will be devoted to hardening the overall system, upgrading the system to withstand hurricane-force winds, and modernizing system design standards to be in-line with the mainland U.S.
- MiniGrids and microgrids will play a key role in supporting resiliency across the island
- T&D restoration and rebuild will complement the generation plan for Puerto Rico
  - Deployment of restoration capex will be assisted by the Private Party

10Yr T&D CapEx by Area of Focus (Percent)



*Note that the T&D cost estimates **do not reflect a wholesale replacement of the current infrastructure**[1], but rather represent a prioritized storm hardening plan for portions of the power grid based on asset damage and immediate grid needs*

Note: Figures reflect nominal dollars. Assumes annual inflation of 2%

1 As an example, the T&D cost estimates do not contemplate the wholesale replacement of every single pole and wire in PREPA's T&D system. Those poles and wires that are in good working condition will continue to operate.

SOURCE: PREPA, COR3, and Navigant

Puerto Rico Electric Power Authority

T&D resiliency is supported by MiniGrids and microgrids

In an effort to increase the resiliency of the grid, the system will be organized into independent electrical “islands” which the system can be divided into following a catastrophic event.

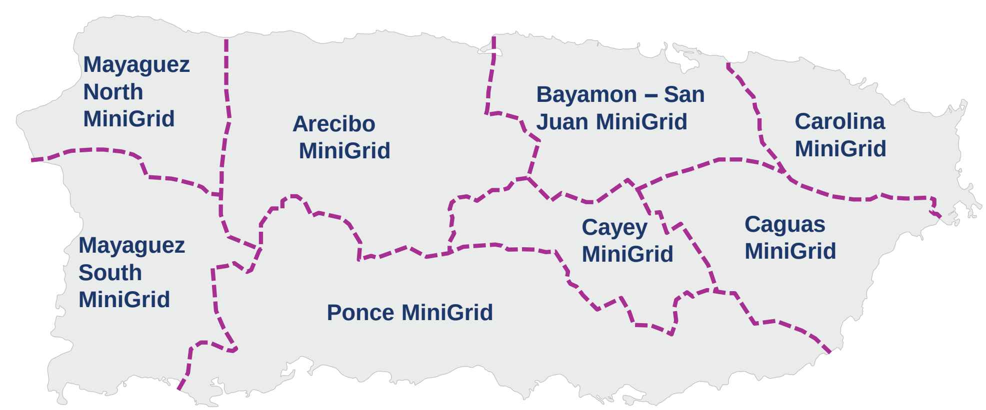
MiniGrid and Microgrid Overview

- The IRP envisions the configuration of the T&D system into eight MiniGrid “islands” to support resiliency and facilitate the integration of renewable and distributed energy resources
- Each MiniGrid will be interconnected with the rest of the electric power system, however it will also be possible to operate each independently for an extended period in the event of grid failure
  - Network of independent MiniGrids will be designed to prevent system-wide blackouts if key transmission lines fail, which occurred following Hurricane Maria
    - Interconnecting lines may take more than a month to repair potential damage
  - Improves ability to respond to and recover from catastrophic events
- Each MiniGrid will be supported by sufficient distributed generation resources to operate independently
  - Builds system redundancy in the event of grid failure
- Within each MiniGrid, small-scale microgrids will support critical load infrastructure such as hospitals, police stations, fire departments, and communications
  - Critical loads supported by the microgrids will be served by dispatchable thermal resources
  - Builds an additional layer of resiliency and hardening for key operation centers

Process of Identifying MiniGrids

- Factors considered when determining MiniGrid locations:
  - Location of critical loads and population centers
  - Geographic topography
  - Vulnerability and susceptibility of overhead transmission lines to long-term outages
  - Possibility of having a 115 kV backbone comprised of underground facilities
- Independent microgrids are located within each MiniGrid on a much smaller scale
  - Siting of potential microgrids depends on the location and needs of critical infrastructure load

Geographic Location of MiniGrids



Puerto Rico Electric Power Authority

Potential T&D Projects

Transmission and Substations

- Harden the power delivery system to withstand hurricane-force winds
- Buildout of electrical “island” minigrids will improve overall flexibility, resiliency, and facilitate the integration of renewables and distributed generation
- System will be built using widely-accepted design standards
- **Priority projects:**
  - ☑ Hardening north-south transmission lines from southern generating units to San Juan
  - ☑ Short-term spending on critical substations and substations in flood-prone areas
  - ☑ Targeting 38 kV transmission lines for rebuild to 115 kV design standard for future voltage conversion

Distribution

- Harden the distribution system, with redundancies via automatic feeder switching configurations and near real-time operational control
- Distribution system will accommodate a high level of distributed energy resources while providing resiliency to critical infrastructure and customer loads
- **Priority projects**:
  - ☑ Near-term upgrades to lines that serve critical customers and loads
  - ☑ Undergrounding of the overhead lines with high exposure to wind and tree / vegetation damage
  - ☑ Automation of feeder switching technologies and configurations

Technology

- Upgrade energy system with modern, reliable, and resilient technology for advanced monitoring and control, sensing, and self-healing capabilities
- **Priority projects**:
  - ☑ Advanced metering infrastructure / smart meters
  - ☑ Smart street lighting
  - ☑ Distribution automation communication (field area network)
  - ☑ Supervisory Control and Data Acquisition (SCADA) communications equipment and program to enable buildout and control of minigrids

Distributed Energy and MiniGrids

- Support resiliency following a major storm event
- Installation of distributed energy resources and minigrids / microgrids will improve the time to recover from outages
- **Priority projects**:
  - ☑ Complete minigrid / microgrid studies by PREPA, Siemens, and the Sandia National Laboratory
  - ☑ Commence planning process for energy efficiency and demand response program rollouts
  - ☑ Begin planning the distributed energy resource program to guide resource installations

Physical and Cyber Security

- Complement infrastructure upgrades with both physical and cyber security investments
- **Priority projects**:
  - ☑ Identify and assess PREPA critical facilities
  - ☑ Baseline cybersecurity and physical security posture and tools assessment for high risk facilities
  - ☑ Implementation of various cyber and information technology (IT) protection measures (e.g. firewalls, remote access, SCADA, etc.)
  - ☑ Implementation of a physical and cyber program build (e.g. North American Electric Reliability Corporation (NERC) standards)
  - ☑ Enhance protections at non-critical substations
  - ☑ Improve on and develop a security operations center

Operations, Efficiencies, & Preparedness

- Harden facilities with advanced technologies capable of withstanding future storm events
- Initiatives to improve operational efficiency including an asset management program, a skills training program, and a PREPA Center for Innovation
- Emphasis on emergency preparedness and disaster recovery investments
- **Priority projects**:
  - ☑ Hardening of control centers and the emergency operations center
  - ☑ Formulation of an emergency response and mutual assistance plan
  - ☑ Formulation of a supply and logistics plan
  - ☑ Preparation for the next hurricane season, including taking inventory of spare parts, trucks, and other equipment
  - ☑ Development of an Emergency Operations Center

SOURCE: PREPA, COR3, and Navigant.

Case:17-04780-LTS Doc#:1428 Filed:07/02/19 Entered:07/02/19 23:24:35 Desc: Main Document Page 100 of 142

VIII. Expenses

d. Operational Initiatives & Performance Improvements

Required reporting for each initiative to be provided by the end of Q1 FY2020

The initiative template provided below will apply to all initiatives that are not completed and described in the Fiscal Plan. For initiatives that do not have estimated savings, key KPIs and timing of KPI delivery must be highlighted.

Initiative name:	What is the name of this initiative? (concise and different enough from other initiatives)
Initiative lead:	Which entity and individual are accountable for delivering this initiative? (ideally one name)
Initiative approvers:	Which entities and individuals are responsible for approving this initiative? (P&L lead, Finance)
Initiative workstream:	Which P&L does this initiative align to? (if more than one, identify primary workstream)
Initative working team:	Who are working team members tasked with delivering this initiative? (highlighting main contact)
Contributors:	Who else might contribute to this initiative? (in case of other entities, mention key contacts)

Ultimate goal and scope of this initiative

- What is the purpose of this initiative?
- What is the underlying issue this initiative is solving?
- How do we define ultimate success for this initiative?
- What is included in the scope of this initiative (countries, entities)

Impact and timing

- What is the preliminary estimate of financial impact?
- What data is required for robust valuation (e.g., financial data and market assumptions)?
- When will the initiative be locked in (financial value, implementation plan)?
- When will the initiative begin to create value?

Major milestones

- What are the top 3-5 milestones necessary to achieve success? When must they be completed and who is responsible for them?

Key performance indicators

- What are our important objectives and what metrics will show better outcomes?
- How will this data be collected and how will a baseline for this data be created?

Dependencies

- Where are there major interdependencies with other initiatives (or other reforms)?

Risks

- What are the key risks?
- What challenges are likely to arise?

Key stakeholders

- Who are the stakeholders that the team needs to communicate with?
- How often does the team communicate with each stakeholder group?
- Which stakeholders influence / make decisions affecting the initiative?

Support needed

- What funding is necessary to ensure that the workstream is successful?
- What other resources / investments are necessary?
- Who does the team need support and input from?

Puerto Rico Electric Power Authority

Overview of FY2020 Initiatives

✓ Cost ✓ Safety ✓ Reliability/Resiliency

PREPA will actively pursue a number of initiatives during FY2020 in an effort to reduce costs and increase safety, reliability and resiliency.

Initiative	Type	Project Phase
San Juan 5 & 6 Fuel Conversion and Repair	Fuel & Purchased Power	Execution
Costa Sur Fuel Conversion	Fuel & Purchased Power	Complete
Economic Dispatch Model	Fuel & Purchased Power	In progress
Renewable Purchased Power Agreements	Fuel & Purchased Power	Negotiations in progress
Conventional Purchased Power Agreements	Fuel & Purchased Power	Final negotiations in progress
Plant Performance and Reliability	Fuel & Purchased Power	On hold
Personnel Capacity and Overtime Tracking	Labor Operating Expenses	Execution
Retirement Processing	Labor Operating Expenses	Complete
Pension Benefit Reform	Labor Operating Expenses	Execution
Medical Benefit Reform	Labor Operating Expenses	Complete
Smart Meters Installation / Damaged Meter Replacement	T&D Capital Expenses	In progress
CILT excess consumption collection	Revenue	In progress
Vegetation Management	Labor Operating Expenses	RFP in progress
Real Estate Optimization	Labor Operating Expenses	In planning
New Generation Plan	Fuel & Purchased Power	Planning / Concept development
Grid Modernization	T&D Capital Expenses	Planning / Concept development
Improving Contract Management Process	Procurement	Execution
E-Billing	Labor Operating Expenses	In progress
Call Center	Labor Operating Expenses	Complete

In progress signifies milestone accomplishments progressing per cadence established in the Fiscal Plan.
Execution signifies contract awarded.

Puerto Rico Electric Power Authority

Overview of FY2020 Initiatives

✓ Cost ✓ Safety ✓ Reliability/Resiliency

PREPA plans to finalize and embark on several FY2020 initiatives, with additional projects still under development

Initiative	Type
(1) Pension Benefit Reform	Labor Operating Expenses
(2) Grid Management	Transmission Efficiency
(3) Real Estate Optimization	Operating Expenses
(4) Purchased Power Agreements	Fuel & Purchased Power
(5) Generation Related Projects	Fuel & Purchased Power
(6) Meter-related Projects	Revenue Improvement
(7) Improving Contract Management	Procurement
(8) P3 Projects	Various
(9) Personnel Related	Labor Operating Expenses
(10) Vehicle Fleet Management	Operating Expenses
(11) Fuel Supply Contracts	Fuel & Purchased Power
(12) Working Capital Management	Revenue Improvement

Each FY2020 initiative is detailed in the following pages.

Puerto Rico Electric Power Authority

(1) Pension Benefits

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Finalize and implement new plan design to reduce total liability

Description

- During FY2019, the analysis of the PREPA pension plans was completed by an independent third party
- During FY2020, an analysis of the total liability outstanding, possible restructuring options, and associated funding obligations must be complete

Current Status

- **Pension Benefits Reform:** Actions are currently underway to calculate the total liability outstanding, possible restructuring options, and associated funding obligations

Impact on the Fiscal Plan

- Initiative is not expected to provide any near-term savings, instead it will require additional funding
- Project is designed to reduce underfunding and improve the long-term viability of the pension plan
- Improved plan status should assist in employee retention and morale

Status

- **Project Phase:** In negotiations

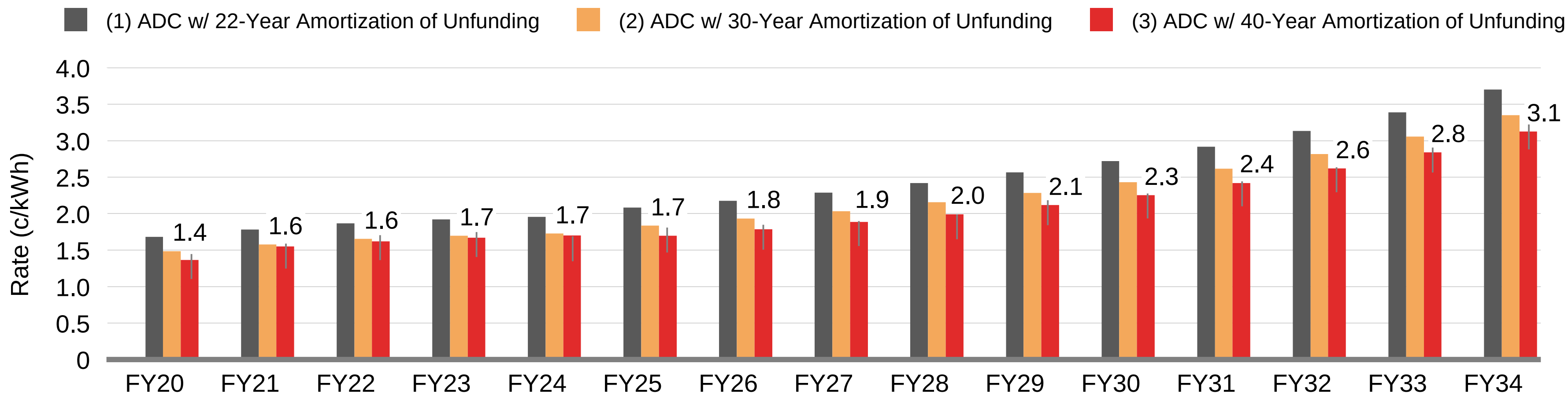
Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Pension Benefits Reform	Finalize and implement new plan design to reduce underfunding	TBD	TBD
Projected Savings for FY2020: 0			

Puerto Rico Electric Power Authority

Pension: Annual Required Contribution for PREPA Employee Retirement System

PREPA's Employee Retirement System ("PREPA ERS") is designed to meet the defined-benefit pension and other post-employment benefits ("OPEB") obligations of PREPA's active and retired employees (including beneficiaries)



Annual Required Employer Contribution for Pension

- Consists of two components—normal cost (less employee contributions) and amortization of unfunded actuarial liability
- Based on the current funding policy, the unfunded actuarial liability is amortized over 22 years from the 6/30/2018 valuation
- Under the baseline scenario, the plan is projected to be fully funded and no amortization payment is required after FY2041
- As of June 30, 2018, total number of active participants is 5,960, and total number of inactive participants receiving benefit is 12,393

Impact on Employer Contribution by Extending Amortization Period

- If the funding policy is changed to extend amortization from 22 years to 30 years, annual required employer contribution would decrease by $31M for FY2020, but amortization payments would continue until FY2049

- Left unchanged, the cost of meeting PREPA's defined-benefit pension and OPEB obligations will represent a significant and growing cost to the consumer. Therefore, the most responsible course of action for PREPA **will be to reform its pension and OPEB obligations through a freeze and/or benefit reduction so that PREPA can deliver on its core mission** (delivering affordable and reliable power)

- **Figures shown are preliminary, and pre-restructuring; estimate will be revised once pension reform is complete**

Notes:
1 Baseline assumes all assumptions are met during the projection period (e.g. pension assets earn 6.30% return each year).
2 Load forecasts from FY2025 – FY2034 are linearly extrapolated based on loads between FY2020 and FY2024

Puerto Rico Electric Power Authority

(2) Grid Management and Modernization

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Determine the most cost-effective projects necessary to upgrade the reliability, resiliency, and flexibility of the transmission grid

Description

- Grid Management will focus on discrete projects that improve the reliability/resiliency and flexibility of the PREPA transmission grid
- Vegetation management is a short-term, no-regrets initiative that supports reliability, efficiency, and economic dispatch
- Grid Modernization will focus on identifying projects that can strengthen network resiliency and reliability and are in line with the IRP

Impact on the Fiscal Plan

- Vegetation management requires an investment of $50M for FY2020 to enable greater efficiencies, reduced losses, reduced fuel consumption, and emissions.
- Once the capacity of transmissions lines is increased, savings will be realized through more economic dispatch of generation plans

Status

- **Project Phase:** Execution & Concept Development
- **Financial:** On Track
- **Schedule:** Pending schedule
- **Resources:** On Track
- **Other Issue/Risk:** None

Current Status

- **Vegetation Management:** Pilot project is underway, with two contractors targeting ~310 critical miles. RFP responses are expected in the end of June for a long-term contract
- **Economic Dispatch Model:** Sargent & Lundy is preparing studies (e.g. LIDAR, PSSE) which will establish additional projects that will provide savings through more economic dispatch once transmission constraints are reduced
- **Grid Modernization:** Focused on establishing eight MiniGrids based on new IRP

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Vegetation Management	Contract with outside vendor to provide best-in-class vegetation management program to PREPA	Q3 FY2020	$0M ($50M in opex required)
Economic Dispatch Model	Build an economic dispatch model with zonal and nodal components for the PR grid to generate savings	TBD	$24M[1]
Projected Savings for FY2020: TBD			

Reporting plan

- New projects introduced to meet the targets of grid management and modernization will be reported independently with milestones and rationale

1 FY2020 Savings Target – May 2019 Post Certification Report

Puerto Rico Electric Power Authority

(3) Real Estate Optimization

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Identify specific properties that can improve PREPA's utilization of real estate spaces through lease renegotions and property sales

Description

- Identify specific PREPA real estate properties for which savings could be realized

Current Status

- **Real Estate Optimization:** Consultant, hired near the end of FY2019, is :
  - Preparing a study to identify specific PREPA real estate properties for which savings could be realized
  - Defining strategies to rationalize properties through sale of owner properties and renegotiation or cancellation of leases

Impact on the Fiscal Plan

- Reduction in rent on certain leased properties is expected to generate near-term savings
- Sales of unused properties is expected to generate both immediate liquidity from sales proceeds and reduction in ongoing operating expenses

Status

- **Project Phase:** In planning

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Disposition of Properties at Santurce	Rationalize leased and owned properties not required for continuing operations	TBD	TBD
Utilization of space and inventory	Rationalize leased and owned properties not required for continuing operations	TBD	TBD
Commercial Offices Optimization	Rationalize leased and owned properties not required for continuing operations	TBD	TBD
Identification of Unused Facilities and Assets	Rationalize leased and owned properties not required for continuing operations	TBD	TBD
Identification of properties held for future use	Rationalize leased and owned properties not required for continuing operations	TBD	TBD
Projected Savings for FY2020: TBD			

Puerto Rico Electric Power Authority

(4) Purchased Power Agreement Renegotiations

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Finalize renegotiations of existing power purchase agreements to obtain lower prices reflective of market conditions

Description

- PREPA has undertaken the renegotiation of its existing purchased power agreements, both renewable and conventional

Impact on the Fiscal Plan

- Renegotiations of the various contacts are expected to generate both near-term and long-term savings on the cost of purchased power

Status

- **Project Phase:** Execution for Conventional, in negotiations for renewables
- **Financial:** On Track for conventional
- **Schedule:** On Track for conventional
- **Resources:** On Track for conventional
- **Other Issue/Risk:** None

Current Status

- **Conventional PPA Renegotiations:** Negotiations with EcoEléctrica are near final (target completion on 7/1/2019); negotiations with AES involving potential fuel switching are ongoing (target completion 11/1/2019)
- **Renewable PPA Renegotiations:** Negotiations with various parties to renewable agreements are in various stages; projects with the greatest potential savings will be prioritized

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Conventional PPA Renegotiation	Renegotiate PPAs with EcoEléctrica and AES	11/15/2019	$80M[1]
Renewable PPA Renegotiation	Renegotiate PPAs with 11 shovel ready contractors for renewable projects	TBD	$45M[1]
Projected Savings for FY2020: TBD			

Reporting plan

- Each PPA will have a separate initiative and monthly reports will be made available on the status of implementation

1 FY2020 Savings Target – May 2019 Post Certification Report

Puerto Rico Electric Power Authority

(5) Generation-Related Projects

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Develop, contract, and implement performance improvement projects at selected plants to improve performance and reliability of selected plants

Description

- Finalize several generating plant initiatives started in FY2019
- Develop additional generation-related projects which will improve the overall operations of the generation directorate

Impact on the Fiscal Plan

- Costa Sur fuel conversion is already generating savings, and valve replacement project is meant to improve safety and reliability, not to generate additional savings
- San Juan fuel conversion will generate savings by switching to natural gas-based fuel
- Mayagüez will generate savings by switching to natural gas based fuel
- Additional projects under development will improve reliability; financial savings are yet to be determined

Status

- **Project Phase:** Execution/Design
- **Financial:** At Risk
- **Schedule:** On Track to updated due dates
- **Resources:** On Track
- **Other Issue/Risk:** Permit pending on San Juan 5&6

Current Status

- **Costa Sur Conversion**: Valve project is pending a planned outage for installation without interruption of operations
- **San Juan 5&6 Conversion and Repairs:** Conversion awaiting final environmental approvals and permits and repairs will be started once conversion is complete
- **Plant Performance Improvement:** Project was transferred to the Generation directorate to be managed internally
- Additional projects are being developed based on the ongoing Sargent & Lundy study, including Mayagüez LNG conversion

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Costa Sur Fuel Conversion	Convert Costa Sur plant to natural gas (and replace valve)	6/1/2019 **(Complete)**	$21M[1]
San Juan Fuel Conversion	Convert San Juan 5&6 to natural gas	2/2/2020 **(initially 8/1/2019)**	$192M[2]
San Juan 5&6 Repair	Develop and implement a plan to correct steam path deficiencies and upgrade turbines	7/1/2020 **(initially 1/1/2020)**	$10M[2]
Plant Performance Improvement	Contract, develop, and implement performance improvement projects and maintenance on selected plants	5/1/2020	$60M[2]
Projected Savings for FY2020: TBD			

1 Embedded in FY20 baseline – initiative completed
2 FY2020 Savings Target – May 2019 Post Certification Report

Puerto Rico Electric Power Authority

(6) Meter-Related Projects

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Projects related to upgrading the fleet of PREPA meters

Description

- Near-term project to replace damaged and missing meters
- Long-term project to install smart meters for PREPA service area

Impact on the Fiscal Plan

- Near-term meter replacement should reduce losses and improve revenues from accounts currently under-reporting with damaged or missing meters
- Long-term project to install smart meters reduce underreporting of older meters, improve customer billing and grid management practices

Status

- **Project Phase:** Execution/Procurement
- **Financial:** At Risk
- **Schedule:** On Track
- **Resources:** On Track
- **Other Issue/Risk:** None

Current Status

- **Meter replacement project:** In pilot stage with increased roll-out expected during FY2020
- **Smart meter project:** In procurement stage: considering various alternatives to finance acquisition and installation of the smart meters
  - Due to time required to install a material number of new meters and the accompanying infrastructure, no savings are currently expected for FY2020

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Smart Meter Installation	Upgrade current meters to smart meters to forgo need for on-site inspection	Q4 FY2020	$265M[1]
Damaged Meter Replacement	Replace damaged meters to improve billing precision	TBD (to be detailed in Aug 19)	TBD
Projected Savings for FY2020: TBD			

1 FY2020 Savings Target – May 2019 Post Certification Report

Puerto Rico Electric Power Authority

Case:17-04780-LTS Doc#:1428 Filed:07/02/19 Entered:07/02/19 23:24:35 Desc: Main Document Page 111 of 142

(7) Improving Contract Management Process

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Develop and implement a new processing program to improve and facilitate overall contract management

Description

- Develop and implement a new processing program to improve and facilitate overall contract management

Current Status

- **Contract Management Improvement:** Division of responsibility and contract close out process are compete. An updated process and procedures handbook is being created

Impact on the Fiscal Plan

- Project will not generate savings directly
- Improvements in both procurement and contract management expected to result in greater efficiency and improved contract compliance

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Contract Management Improvement	Develop and implement a new contract management processing program	12/31/2019	TBD (to be estimated by August 2019)
Projected Savings for FY2020: TBD			

Status

- **Project Phase:** Execution
- **Financial:** Pending financial savings target
- **Schedule:** On Track
- **Resources:** On Track
- **Other Issue/Risk:** None

Puerto Rico Electric Power Authority

(8) P3 Project Reporting

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Provide periodic reporting on status of PREPA's ongoing P3 Projects

Description

- PREPA currently has several P3 projects in process and is expected to develop additional P3 Projects during FY2020

Impact on the Fiscal Plan

- Various among the individual P3 projects but current projects are focused mainly on operational, reliability and resiliency improvements

Status

- **Project Phase:** In Design

Current Status

- **New Generation:** Refer to Chapter VIII.iii. "Expenses – Resiliency & Resource Planning" of the Fiscal Plan for additional information on the IRP. Refer to the following pages for additional information on relevant individual projects.

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
New Generation	Develop plan to add new cost-effective long-term generation to the grid through individual projects[1]	TBD	TBD
Projected Savings for FY2020: TBD			

Reporting plan

- Each P3 project will be treated as a separate initiative and monthly status reports on implementation will be provided

1 New Generation in Culebra and Vieques, utility scale energy storage, hydroelectric program upgrade, and replace PREPA's peaking unit, among others

Puerto Rico Electric Power Authority

(9) Personnel-Related Projects

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Projects related to improving the management and efficiency of the PREPA's workforce

Description

- The Personnel Capacity project is focused on discovering impediments to the efficient use of PREPA's workforce and will be used as the foundation for implementation projects during FY2020
- The Overtime Tracking project is providing monthly reports on current PREPA overtime use and will be used to develop proposals for enhanced controls on overtime usage

Impact on the Fiscal Plan

- Personnel Capacity project is developing the foundation for future projects expected to generate savings
- Overtime tracking is expected to generate modest savings
- Implement employment improvements expected to increase hiring and retention efforts

Status

- **Project Phase:** In Progress
- **Financial:** On Track
- **Schedule:** At Risk
- **Resources:** On Track
- **Other Issue/Risk:** On Track

Current Status

- **Personnel Capacity Assessment & Implementation:** Finished review of T&D and is finalizing a review of Customer Service. Generation is pending
- **Overtime reduction:** Tracking is producing a monthly report for senior management
- **Retirement Backlog Processing:** A ~500 person backlog remains unresolved partly due to staffing challenges
- New implementation projects, including the development of an overtime management program for individual directors, are being formulated by an outside consultant.

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Retirement Backlog Processing	Eliminate retirement processing backlog	TBD	$10M[1]
Overtime Reduction	Reduce OT spending by establishing reporting and approval processes	End of Q1 FY2020	0
Personnel Capacity Assessment & Implementation	Determine and implement optimal staffing levels by directorate	10/14/19 – Assessment TBD- Implement.	TBD
Employee benefit optimization	Execute health plans with monthly employee contributions and increased co-payments structure	1/1/2019 **(Complete)**	$29M[1]
Projected Savings for FY2020: TBD			

1 FY2020 Savings Target – May 2019 Post Certification Report

Puerto Rico Electric Power Authority

(10) Vehicle Fleet Management

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Develop projects to improve the efficiency of, and the costs associated with, PREPA's vehicle fleet

Description

- Projects will focus on the maintenance of PREPA's vehicle fleet and changes to the process of acquiring and selling vehicles

Current Status

- Projects are in the early stages of planning by the PREPA PMO office

Impact on the Fiscal Plan

- Focus will be on longer savings to costs of acquiring and maintaining vehicle fleet
- Maintenance of vehicles will yield better and more reliable service responses
- Acquisition of new vehicles will improve service reliability and effectiveness

Status

- **Project Phase:** Planning / Concept Development

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Vehicle Acquisition	Acquire new vehicles to improve reliability of fleet	TBD	TBD
Vehicle Maintenance	Maintain current vehicles to improve reliability of fleet	TBD	TBD
Projected Savings for FY2020: TBD			

Puerto Rico Electric Power Authority

(11) Fuel Supply Contracts

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Negotiate extensions of expiring or obtain new contracts for fuel supply

Description

- Negotiate extensions of expiring fuel supply contracts or obtain new fuel supply agreements as a replacement

Impact on the Fiscal Plan

- At the time of this Fiscal Plan, there are no clear indications on the possible economic terms of extended or new contracts

Status

- **Project Phase:** In negotiations

Current Status

- Sargent & Lundy study is examining the existing fuel supply contracts and alternatives for new supply contracts
- Individual projects for specific contracts to be identified during FY2020

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
Negotiate fuel supply contracts	Run competitive processes to obtain best available market prices for the various kinds of fuel required by the plants, and negotiate contracts effectively	TBD	TBD
Projected Savings for FY2020: TBD			

Puerto Rico Electric Power Authority

(12) Working Capital Management

✓ Cost ✓ Safety ✓ Reliability/Resiliency

Develop strategies to improve PREPA's working capital flow

Description

- Negotiate with municipalities for a return of CILT contributions and develop a strategy to improve system-wide collection improvements

Impact on the Fiscal Plan

- This initiative will provide increased liquidity in the long and short term, and provide improved financial stability

Status

- **Project Phase:** Concept Development
- **Other Issue/Risk:** Ability to recover from municipalities

Current Status

- **CILT:** PREPA and mayors of municipalities are already in conversations to agree on payment plans
- **Collections:** Initiative is currently under deliberative planning and scope development

Key Initiatives / Potential FY2020 Savings

Initiative	Description	Due Date	Savings Target ($M)
CILT	Negotiate with municipalities for a return of CILT contributions	TBD	TBD
Collections	Develop and implement strategy to improve collections and process accounts receivable	TBD	TBD
Projected Savings for FY2020: TBD			

Puerto Rico Electric Power Authority

(13) New Initiatives

Develop the following new initiatives

Initiative	Description
Reducing employee injury rates	Develop a framework for lowering injury rates from current rates to less than 0.5 per 100 full-time equivalent workers (FTEs) Include reporting on injury rates and equivalent worker's compensation in monthly reporting requirements to the FOMB
Reduce technical losses	Develop a technical loss reduction program which should include an appropriate baseline and implementation plan (if appropriate, this initiative can be part of the broader capital expenditure plan) Following identification of each specific initiative, initiatives may be placed under Grid Management or Generation initiatives
Develop a maintenance delivery program	Enhance PREPA's maintenance program over the next three years, focusing on FY2020 projects, and submit to the FOMB monthly reports on implementation of such program

- Each of the new initiatives may be rolled into the one of the existing initiatives to better manage and deliver them

Puerto Rico Electric Power Authority

Cost Reductions – Fuel Procurement

A comprehensive fuel procurement strategy should be developed by the end of Q1 FY2020 to deliver further savings for PREPA starting in FY2020

- PREPA consumes approximately 8 MMBOE of Fuel Oil #6, 3 MMBOE of Fuel Oil #2, and 7 MMBOE of LNG annually[1], which are **procured under defined contracts**
- **Under Title III status** a systematic review of contracts to reduce costs, increase service level, and overall assess savings opportunities will be conducted
- Procurement of all fuel types should be guided by a **comprehensive fuel procurement strategy,** which should include:
  - **Measures to further develop procurement capabilities and performance incentive structures** to improve the process and outcomes of fuel procurement, including incentives tied to specific cost reduction targets for each fuel type
  - **Development of procurement processes** with specific savings targets measured against clear baselines and actionable steps set against reasonable deadlines. The entire process should show measurable impact within the contracting cycle and that it is implemented no later than the end of FY2019
  - **Assessment of payment terms** to determine whether long payment terms with working capital loans or fuel purchased in spot and term contracts with prompt payment is more cost-effective
  - **Assessment of delivery terms** to determine whether arranging own shipping (FOB) or relying on the shipper for transportation and insurance with payment on delivery (CIF) is more cost-effective
  - **Administrative and structural reforms of Fuel Procurement Office** to promote market competition, increase transparency, implement quality control, and ensure that the irregularities identified in official government reports and audits are not repeated
  - Clear **governance structure providing oversight independent of PREPA management** to ensure a fair and unbiased RFP process without introducing significant delay
  - **Proactive analysis and solicitation of new potential suppliers** to ensure truly competitive processes with multiple potential suppliers for each fuel type with predetermined bidding templates
  - **Commodity risk management processes and strategies** to reduce exposure to volatile and expensive fuels, such as deploying credit enhancement tools (e.g. through Federal and/or Commonwealth credit backing) to lower credit risk and enable fuel hedging programs, developing an organization that assesses all commodity risks for PREPA centrally, and changing the generation mix toward more renewables
  - Regular **performance review processes** to assess contractor's performance against contract service terms

1 Estimates exclude purchased power fuel consumption which is covered by the PPOAs for those contracts

Puerto Rico Electric Power Authority

Fuel Procurement Overview

Nearly all PREPA-owned generation is fossil fuel powered, requiring significant fuel resources to be imported to the island and driving the largest cost component in customer rates.

Overview

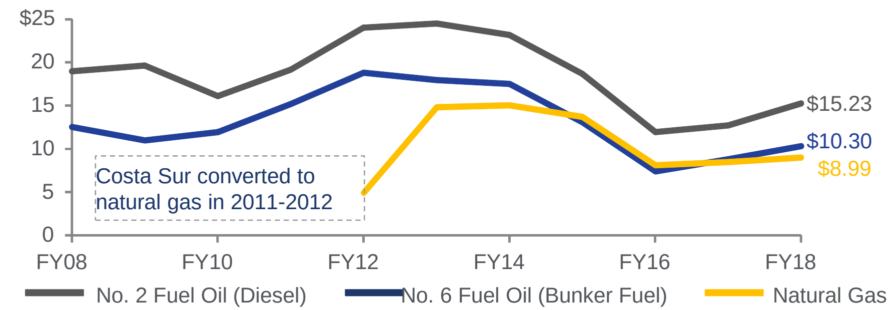
- PREPA procures the fuel necessary to operate its plants through 2-year contracts with various suppliers
- Contracts are awarded through competitive RFP processes
  - Contracts are typically 2 years in length with another 1-2 years of extensions
  - Structured to avoid fluctuations in pricing
- PREPA faces higher fuel prices because of additional costs related to logistical / transportation challenges and environmental compliance
- No. 6 fuel oil is delivered to the island at the CORCO pier in the south, then transported by barge to Aguirre, San Juan, and Palo Seco
  - Pipelines transport No. 6 fuel oil from CORCO to Costa Sur (south) and from San Juan to Palo Seco (north)
- No. 2 fuel oil is delivered at San Juan through Puma Energy Caribe's facility then transported via barge to Cambalache, Mayaguez, and Aguirre
  - No. 2 fuel oil is delivered to other, smaller combustion turbines and Costa Sur (if necessary) via tanker truck
- LNG is delivered to the island via EcoElectrica's terminal in the south, which is currently the only LNG facility
  - LNG from EcoElectrica is delivered via pipeline to Costa Sur

Key Fossil Fuel Suppliers

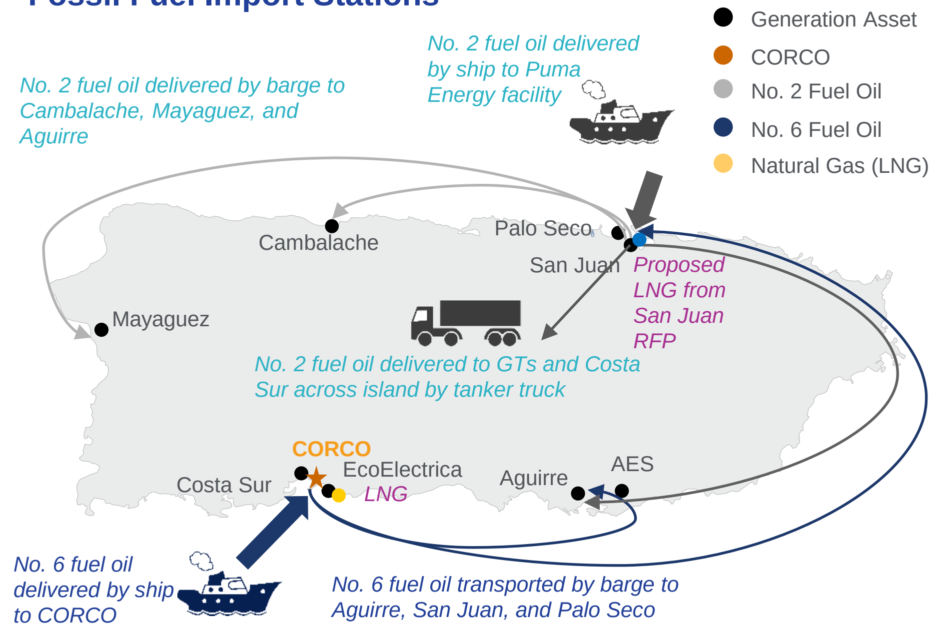
Natural Gas	• Gas Natural Aprovisionamientos (EcoElectrica)
Fuel Oil and Diesel	• Puma Energy Caribe • Freepoint Commodities
Propane and Automotive Fuel	• Liquilux Gas Corp. • Total Petroleum Puerto Rico Corp.

Historical Realized Fuel Prices

($ / MMBtu)



Fossil Fuel Import Stations



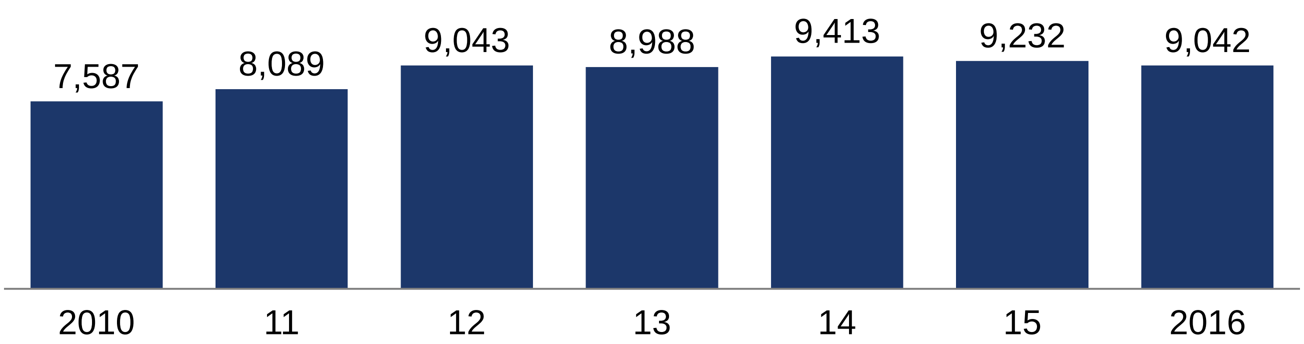
Puerto Rico Electric Power Authority

IX. Debt Service

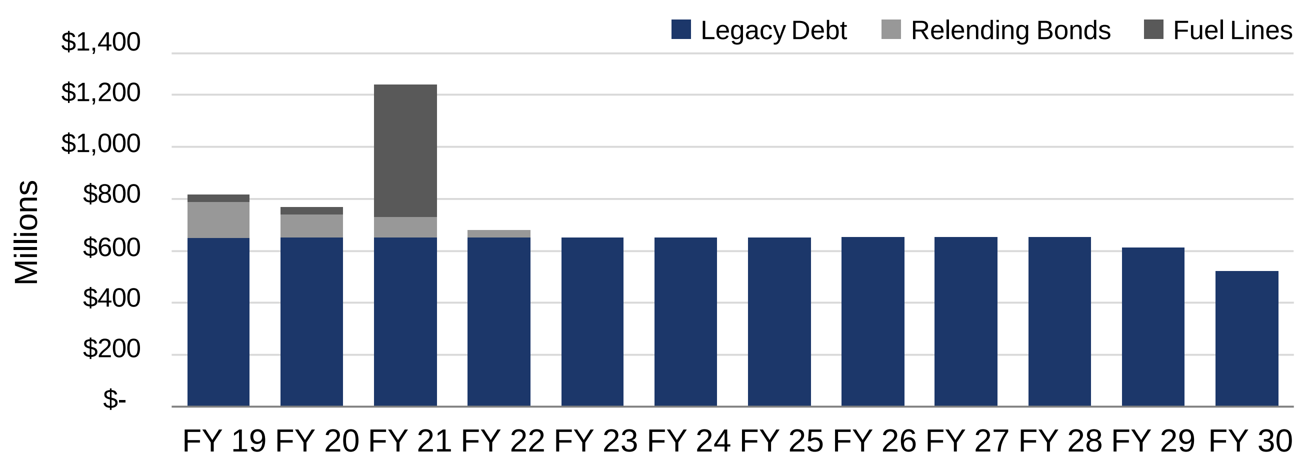
PREPA's Current Debt Structure is Not Sustainable

- As demand has fallen, financial performance has declined and PREPA has borrowed to fund operating expenses. By 2014, PREPA was overburdened with debt and had no access to additional liquidity
- PREPA had $9.25B outstanding debt as of 5/3/2017, with debt service obligations of $4.5bn over the next five years
- The estimated annual debt service obligation based on term out of all long-term financial liabilities at a 5% interest rate over 25 years was approximately $657 million per year

Debt Balance, $ Millions



Status Quo Debt Service

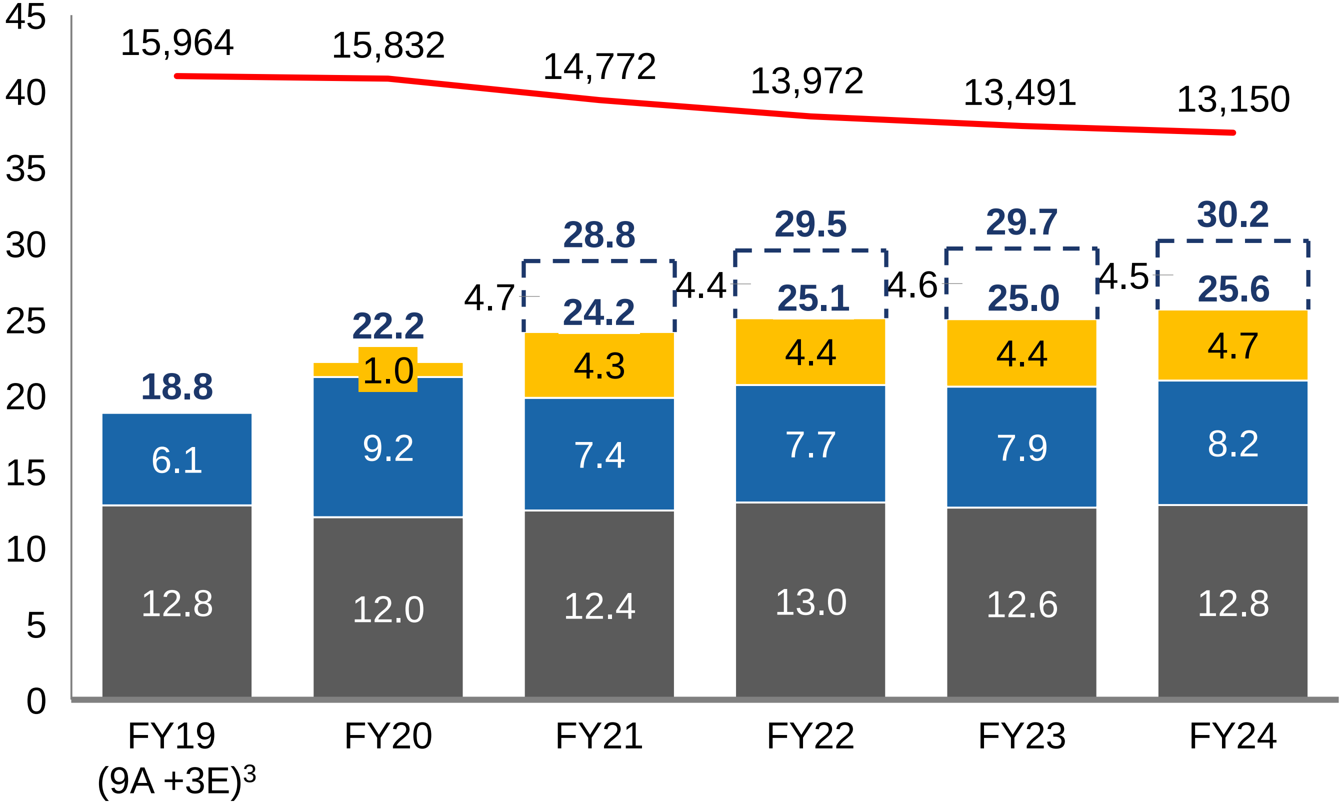


Puerto Rico Electric Power Authority

Overview of Rates without Debt Restructuring

Utility sales actual/Forecast (GWh)
PREPA Other Operating Costs[2]
Impact due to Unrestructured Legacy Debt[5]
Fuel & Purchased Power
Transition Charges[1]

Rates including Unrestructured Legacy Debt (c/kWh)



Key takeaways

- Rates in the fiscal planning period would have been higher than ~30 c/kWh in FY2024 under Unrestructured Legacy Debt
- Revised RSA allows for the rates to remain at ~25c/kWh through the period
- Further opportunity for cost reduction through grid modernization and improved efficiency delivered through T&D operator remain

1 For simplicity, the PREPA Definitive RSA Transition Charge plus an estimated additional charge for PREPA ERS Pension liability are shown together. These charges are independent from each other and are to be assessed on customer bills separately. 1 c/kWh Settlement Charge in FY2020 as per the PREPA Definitive RSA; RSA Transition Charge rate shown represents system average rates across the entire customer base. Since some customers are subsidized and therefore exempt from the charge, actual charges on bills of unsubsidized customer may be higher.
2 Assumes PREPA generation assets (GenCo) contract with the entity operating the non-generation assets (GridCo); costs for GenCo included under Conventional PPAs starting FY2021
3 Nine-month actual spend extrapolated to calculate full year estimates. May not include charges that occur only towards the end of the year
4 Values not shown due to small magnitude
5 Difference between Unrestructured Legacy Debt and Definitive RSA reflected. Sourced from AAFAF
Note: This comparison is meant for Illustration Purposes Only. Existing Power Revenue and Relending Bond Debt Service assumes that unpaid principal and interest from its last cash flow date through Fiscal Year 2020 is restructured for level debt service through the remaining term at an assumed 6% rate. Assumes the April 2018 PREPA Fiscal Plan Load Projections for the implied c/kWh charge

SOURCE: RSA Transition Charge values are incorporated from the Definitive RSA Recovery Plan Term Sheet, May 2019

Puerto Rico Electric Power Authority

Proposed Definitive RSA and Effect on Legacy Debt

Overview of the Definitive Restructuring Support Agreement (RSA)

- To address debt unsustainability, the Definitive RSA was executed on May 3, 2019
- New Securitization Bonds will be secured by a capped securitization charge to customers on a cent per kilowatt hour (c/kWh) basis, known as the “Transition Charge,” that will flow to the securitization vehicle
- This agreement ensures that **cost is not passed on to remaining consumers**, should load fall below projections
- The Definitive RSA achieves a reduction of overall debt by $3B, from $10.2B[1] to $7.2B[2]

	PV of Cash Flow @ 5.25% Rate ($M)
Power Revenue and Relending Bonds[1]	10,194
2019 RSA[2]	7,218
Difference	2,977

- **Debt is sustainable** as the new securitization bonds are payable only from actual cash received by the securitization vehicle, with extension at maturity (A bonds only) if not paid in full by stated maturity; B bonds to mature at 47 years whether or not paid in full

1 This comparison is meant for Illustration Purposes Only. Existing Power Revenue and Relending Bond Debt Service assumes that unpaid principal and interest from its last cash flow date through Fiscal Year 2020 is restructured for level debt service through the remaining term at an assumed 6% rate.
2 Assumes the April 2018 PREPA Fiscal Plan Load Projections for the 2019 RSA expected cash flow for the present value calculation

Puerto Rico Electric Power Authority

Implementation of the Definitive RSA

Under a Restructuring Support Agreement, PREPA's legacy debt obligations will be reduced, securitized and paid down through a Transition Charge to be collected from T&D system customers

- PREPA, the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Financial Oversight and Management Board, the Ad Hoc Group of PREPA Bondholders, Assured Guaranty Corp. (and subsequently Syncora Guarantee) executed a Definitive Restructuring Support Agreement (the "RSA") on May 3, 2019. The RSA provides for payment, at an agreed discount of legacy bond debt incurred in financing of Puerto Rico's electric infrastructure. It paves the way for PREPA's emergence from Title III and for Transformation Transactions involving Puerto Rico's electric system
- Holders of existing PREPA bonds will exchange those bonds for two types of new Securitization Bonds
- Debt service on the Securitization Bonds will be backed by a fixed Transition Charge to be paid by all Customers served by or connected to the T&D system
- The Transition Charge will be subject to a predetermined maximum, will not vary with fluctuations in electricity sales, and will be "non-bypassable." It will start at 2.768 c/kWh and will increase gradually over a period of 24 years to 4.552 c/kWh. It will remain in place until the later of either 1) full satisfaction of "A" Bonds, or 2) 47 years after issuance

Implementation of the RSA will require enactment of new legislation or the amendment of existing legislation (Act 4-2016) which will (among other things) govern the Securitization Bonds and provide for the imposition of the Transition Charge and mechanisms intended to protect the revenues to be generated by collection of the Transition Charge

Puerto Rico Electric Power Authority

Creditor Terms of the Definitive RSA

The Definitive RSA represents a significant step to reaching a Plan of Adjustment for bondholders and for PREPA to execute the transformation of its power grid

- The New Securitization Bonds are secured by a capped securitization charge to customers on a cent per kilowatt hour (c/kWh) basis, known as the "Transition Charge," that will flow to the securitization vehicle
  - The Transition Charge will be fixed through the final maturity of the new bonds
  - The Transition Charge will be a fixed cost (in c/kWh) for each consumer's electricity usage on their bills, leaving creditors to bear a material portion of electric demand/load reduction risk
  - A Settlement Charge of 1 c/kWh will be implemented on July 1, 2019 and shall remain in place through the Effective Date of the plan of adjustment
- The New Securitization Bonds will consist of two tranches of debt:
  - Tranche A Bonds:
    - Current interest bearing securities
    - 40 year stated final maturity; maturity to extend if not paid in full, until payment in full.
    - Flexible amortization "turbo" structure – early amortization if load exceeds projection
    - Priority in principal repayment
  - Tranche B Bonds:
    - Accreting interest bearing securities (similar to a capital appreciation bond)
    - 47 year final maturity
    - Receive no cash flow until Tranche A bonds are paid in full
    - Expire without further payment once they reach their final maturity regardless of amount of payment
- Demand protection
  - Transition Charges are non-bypassable, based on energy usage, and obligatory by all customers subject to certain defined exceptions
  - Demand protection term sheet in the RSA provides details specific terms on how Transition Charges are calculated for customers with behind the meter generation (BTMG customers)
  - Implementation of the Transition Charge for BTMG customers varies depending on whether customers have generation approved, in place, and operation before or after September 30, 2020

Puerto Rico Electric Power Authority

Comparison of Definitive RSA to Unrestructured Legacy Debt

The Definitive RSA Transition Charge is on average 4.5 c/kWh lower than the Unrestructured Legacy Debt over the first 10 years between FY21 and FY30

10 year comparison:

		Unrestructured Legacy Debt Charge (c/kWh)	Definitive RSA Transition Charge (c/kWh)
2021	1	7.439	2.768
2022	2	7.217	2.768
2023	3	7.404	2.768
2024	4	7.479	2.957
2025	5	7.55	2.957
2026	6	7.616	2.957
2027	7	7.676	2.957
2028	8	7.731	2.957
2029	9	7.449	3.242
2030	10	6.766	3.323

- Definitive RSA structures transition charges to start low at 2.768 c/kWh and increase to 4.55 c/kWh by year 23
- Savings realized from **grid modernization** and **outscored T&D operations** can offset higher transition charges in subsequent years

*The calculation of the Transition Charge set forth in the Recovery Plan Term Sheet assumes 100% of the Bonds are exchanged; interest accrues on Bonds until May 1, 2019 at prior stated interest rates; interest stops on power revenue bonds on May 1, 2019; Administrative Claim for Tranche A interest accrues beginning May 1, 2019; Administrative claim not paid through Settlement Charge is satisfied in Tranche A Bonds; Settlement Charge is paid as provided in the RSA

NOTE – This comparison is meant for Illustration Purposes Only. Unrestructured Legacy Debt Charge stems from Existing Power Revenue and Relending Bond Debt Service assumes that unpaid principal and interest from its last cash flow date through Fiscal Year 2020 is restructured for level debt service through the remaining term at an assumed 6% rate. Assumes the April 2018 PREPA Fiscal Plan Load Projections for the implied c/kWh charge

 SOURCE: RSA Transition Charge values are incorporated from the Definitive RSA Recovery Plan Term Sheet, May 2019

Summary of Tranche A / Tranche B Bonds

The Special Purpose Vehicle (SPV) shall issue Securitization Bonds on the Effective Date, in the tranches summarized below, secured by the Transition Charge

	Tranche A Bonds	Tranche B Bonds
Exchange Ratio	67.5%	10.0%
Maturity	40 year stated maturity / 33 year expected maturity[1]	47 year stated maturity
Coupon / Accretion Yield	5.25% (tax-exempt)	7.00% (tax-exempt) / 8.75% (taxable)[2]
Denominations	Integral multiples of $1.00 or such higher amount required by DTC	Integral multiples of $1.00 or such higher amount required by DTC
Payment Priority	Paid first out of pledged revenues	Paid only after Tranche A Bonds paid in full
Debt Service Reserve Fund	5% of Tranche A Principal and funded through excess cash flow after payment of Tranche A Interest	No Debt Service Reserve Fund
Call Protection	10 year par call	Callable in 10 years at 110% of Accreted Value, declining by 0.5% per year to par
Other Aspects	Any interest not paid when due shall be added to the interest to be paid on the next payment date for such Tranche A bonds The Obligation, including the Transition Charge, to pay the Tranche A Bonds will extend beyond the stated final maturity if not paid in full on stated final maturity until all principal of, and accrued and unpaid interest on, the Tranche A Bonds are paid in full	Interest on Tranche B bonds will accrete similar to a Capital Appreciation Bond No Cash flow on Tranche B Bonds until Tranche A Bonds are paid in full Tranche B Bonds shall receive 100% of cash flow from the Transition Charge after the Tranche A Bonds are fully repaid Any amounts on Tranche B Bonds not paid with Transition Charge Revenues prior to their stated maturity will not be recoverable by Bondholders

- In the Preliminary RSA from July 2018, the Tranche A bonds expected maturity was 35 years and the Tranche B Bonds stated maturity was 45 years

1 Based on Oversight Board's May 2018 projections; 2 The Government Parties shall work in good faith to try to obtain tax-exempt status for Tranche B Bonds or a portion thereof but Tranche B Bonds are not required to be tax-exempt.

Puerto Rico Electric Power Authority

PREPA Legacy Non-pension Long-term Liabilities as of July 31, 2018

Debt Overview ($ Millions)	Principal Outstanding	Accrued Interest	Principal + Interest	Weighted Average Interest Rate	Maturities
Bonds:					
Uninsured Build America Bonds	676	62	738	6.10%	*7/1/30 - 7/1/40*
Uninsured Power Revenue Bonds	4,958	392	5,350	5.27%	*7/1/17 - 7/1/43*
Total Uninsured Legacy Bonds	**$5,634**	**$454**	**$6,088**	**5.37%**	
Insured Power Revenue Bonds	$2,250	$155	$2,405	4.73%	*7/1/17 - 7/1/37*
Total Legacy Bonds	**$7,884**	**$609**	**$8,493**	**5.19%**	
Series 2016 (Relending Bonds)	$375	$47	$422	8.29%	*1/1/18 - 7/1/22*
Total Bonds Outstanding	**$8,259**	**$656**	**$8,915**	**5.33%**	
Fuel Line Loans:					
Scotia Fuel Line	$200	$6	$206	7.25%	
DK/Solus Marathon Fuel Line	495	15	510	7.25%	
Fuel Line Loans	**$695**	**$21**	**$716**	**7.25%**	
Total Bond and Fuel Line Obligations	**$8,954**	**$677**	**$9,631**	**5.48%**	
Swap Claims:					
UBS Swap Claim	$36	n.a.	$36	4.08%	*7/2/2029*
J.P. Morgan Swap Claim	17	n.a.	17	4.08%	*7/2/2029*
Total Swap Claims	**$53**		**$53**	**4.08%**	
GDB Loans:					
GDB Loan	$35	n.a.	$35	6.00%	*12/31/2014*
Isabela Dam Loan	1	n.a.	1	7.00%	*6/30/2018*
Total GDB Loans	**$36**		**$36**	**6.03%**	
Total Financial Obligations	**$9,043**	**$677**	**$9,720**		

Note: FOMB has not validated this data and understands that the data presented in the table above is the most current version as of Fiscal Plan certification.

Puerto Rico Electric Power Authority

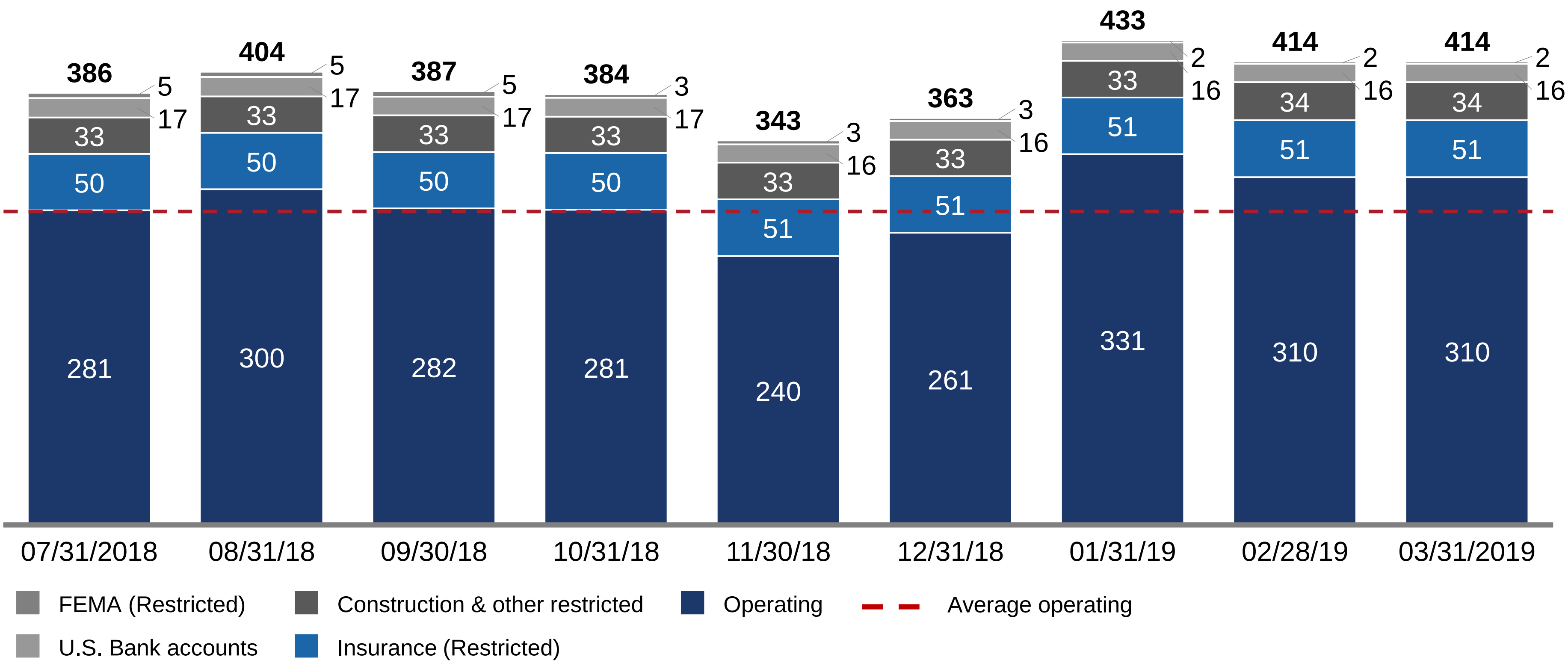
X. Liquidity Management and Federal Funding

PREPA Bank Balances – Operating and Segregated Accounts

PREPA's cash flow remained stable during FY2019 as cash receipts have generally met operating cash expenditures

- PREPA's Operating Account bank balance at 3/31/19 was approximately $310M; Operating Account balance averaged $283M over the period 7/1/18 – 3/31/19
- As of March 8, 2019, PREPA had fully repaid the $300M post-petition loan from the Commonwealth of Puerto Rico

FY2019 Monthly Bank Balances ($M)



Notes:
1. Operating Accounts include General Fund, Working Fund and Revenue Fund accounts
2. Operating Accounts exclude PREPA deposits held at GDB and funds held in FEMA emergency accounts
3. US Bank Accounts are related to debt service (e.g. Sinking Funds) and Self Insurance Funds

Puerto Rico Electric Power Authority

Overview of liquidity management initiatives

PREPA has implemented several specific initiatives that should produce meaningful improvements to its liquidity situation and positioned PREPA to continue to drive further progress.

Organizational Initiatives	▪ Hiring restructuring advisors supporting the CEO and executive management during the transformation process ▪ Creation of the Office for Contract and Procurement Compliance (OCPC)
Accountability	▪ Applying more rigor into the evaluation of potential projects and cash expenditures ▪ More robust weekly reporting requirements ▪ Enhancing the planning models and tools used to evaluate PREPA activities
Cash Management Controls	▪ Monitoring of liquidity, cash receipts and disbursements; weekly forecast to actual variance analysis ▪ Cash distribution controls ▪ Maximize federal funding available for disaster recovery by creating a Disaster Funds Management Office (DFMO) to focus exclusively on expenses eligible for reimbursement pursuant FEMA Public Assistance Program Policy Guide
Collections	▪ Reestablishment of communications linkages from customer meters to PREPA billing systems ▪ Ongoing discussions with public corporations to validate / determine potential collections of past due amounts ▪ Maintaining active communication with Puerto Rico Aqueducts and Sewers Authority (PRASA) on the collection of current and undisputed past amounts
Fuel & Purchased Power	▪ Managing generation fleet resources with a view to optimizing economics when the transmission grid allows ▪ Operating the power grid with a lower level of spinning reserves, improving dispatch ▪ Negotiations with multiple vendors for potential future savings
Other Initiatives	▪ Managing the FEMA reimbursement process; managing payment to largest restoration vendors until PREPA collects the reimbursement funds from FEMA ▪ Establishing the actual validated claims for storm-related insurance matters, and eventual collection of these funds ▪ On-going effort to evaluate options and execution tactics related to material changes in staffing levels and capabilities

Puerto Rico Electric Power Authority

Process for Applying for FEMA Public Assistance

The Central Office of Recovery, Reconstruction and Resiliency (COR3) is a division within the Public-Private Partnerships committed to ensure Puerto Rico's recovery.

- COR3 works hand-in-hand with FEMA, Government Agencies, Municipalities and Non-Profit Organizations to assure maximum recovery and guarantee an efficient, effective and transparent use of available resources
- Mission - To promote and implement reconstruction efforts with efficiency, effectiveness, and transparency, capitalizing on opportunities to build back a better, stronger, and more resilient Puerto Rico

Public Assistance Program

- The Public Assistance Program addresses various types of emergency work (debris removal and emergency protective measures), and permanent work (roads, bridges, buildings and structures, water control facilities, utilities, and parks and recreation areas)
- For the FEMA Government Public Assistant Grant program, COR3 will be the Applicant and the sub-applicants/sub-recipients will be Agencies, Municipalities and certain Private Non-Profits that provide essential government type services

Flow of Federal Funds

FEMA
1. Obligated
2. Disbursed
→ **COR3** → **PREPA**

Puerto Rico Electric Power Authority

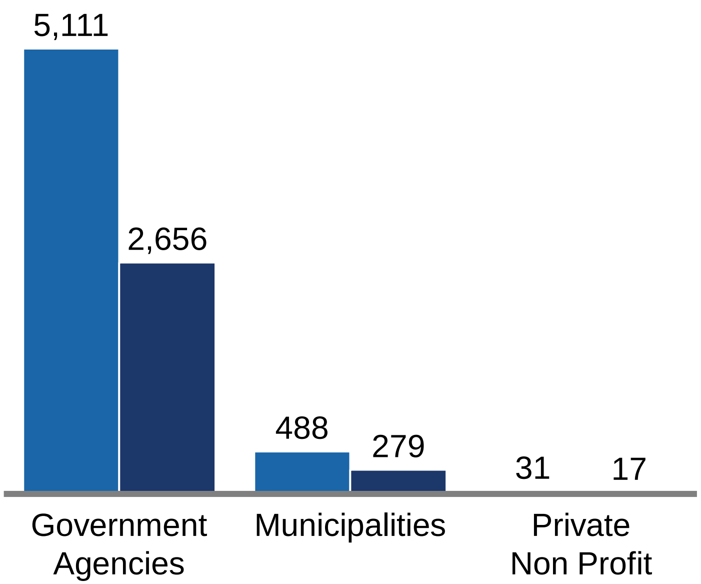
Puerto Rico Overview – Federal Funding Status

Public Assistance Program

Disaster grant assistance is available for communities to quickly respond to and recover from major disasters or emergencies declared by the President of the United States. Public Assistance reimburses local governments and certain private non-profit organizations for removing disaster-generated debris, the cost of preparing for and responding to the disaster and repairing or replacing eligible infrastructure including roads, bridges, buildings and utilities. The Public Assistance program is funded by FEMA and administered by the Government of Puerto Rico. FEMA obligates funding for these projects directly to Puerto Rico.

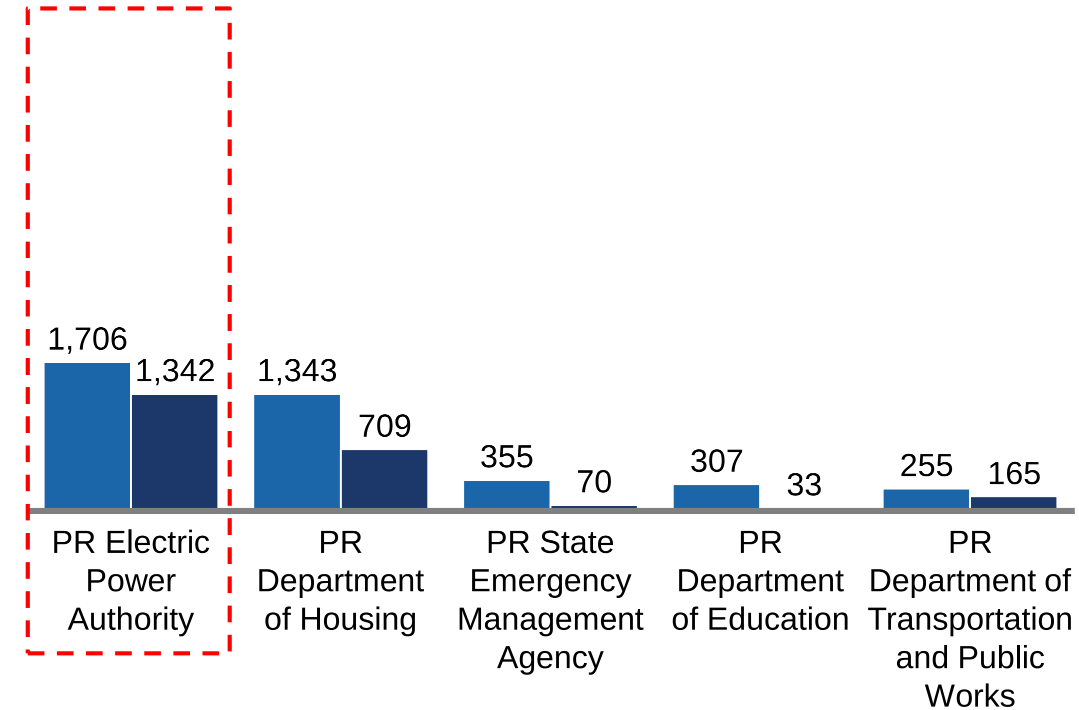
Total FEMA Public Assistance Received

$M



FEMA Emergency Public Assistance Received By Agency

$M



SOURCE: PREPA's "FEMA Flash Report" as of 3/29/19 and COR3 Portal as of 3/21/19

Puerto Rico Electric Power Authority

Emergency Work – Status and Reimbursement Procedures

Emergency Spend (Category A & B)[3]

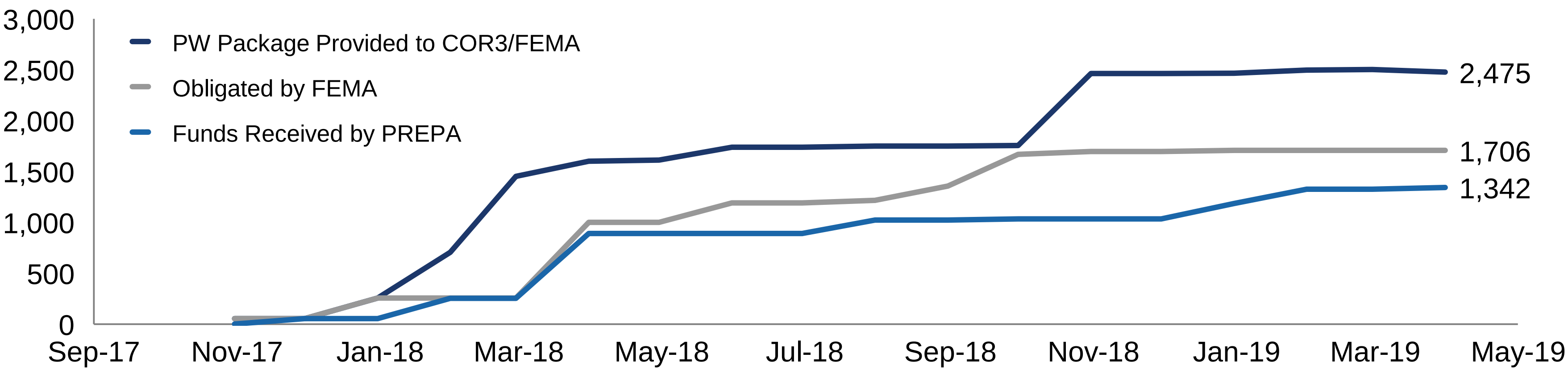
- Work that must be performed to reduce or eliminate an immediate threat to life, protect public health and safety, and to protect improved property that is significantly threatened due to disasters or emergencies declared by the President
- Emergency work completed by PREPA, third party contractors and Mutual Aid Parties

FEMA Reimbursement

- To seek reimbursement for emergency restoration expenditures PREPA must submit detailed supporting documentation in the form of a Project Worksheet (PW) to FEMA and COR3
- Obligated Funds made available by FEMA to COR3 via electronic transfer following FEMA's obligation of a PW
- PREPA is required to submit detailed supporting documentation and make an official Request for Reimbursement (RFR)
- COR3 completes final approval and transfers funds to PREPA

Estimated Emergency Work Reimbursement – By Month[1,2]

$M



Highlighted Project Worksheets

- **Cobra Acquisitions:** $1.29B – Electric power T&D line repair work including storm restoration and projects.
- **Mutual Aid Parties:** $329.7M – Emergency assistance in the form of personnel and equipment and other resources to aid in restoring and/or maintaining electric utility service.
- **Whitefish Energy:** $143.6M – Perform transmission and distribution power grid reconstruction from 600V to 230kV.

1 "PW Package Provided to COR3/FEMA" based on project worksheet documentation provided by PREPA to FEMA. PW has not been prepared and entered into the FEMA system.
2 Timing represented in the table above is approximate.
3 Performance period for submission of Category A and B project worksheets ended in March 2019 for Hurricane Irma and will end in September 30, 2019 for Hurricane Maria
SOURCE: Estimated based on PREPA's "Project Worksheet Master Tracker"

Puerto Rico Electric Power Authority

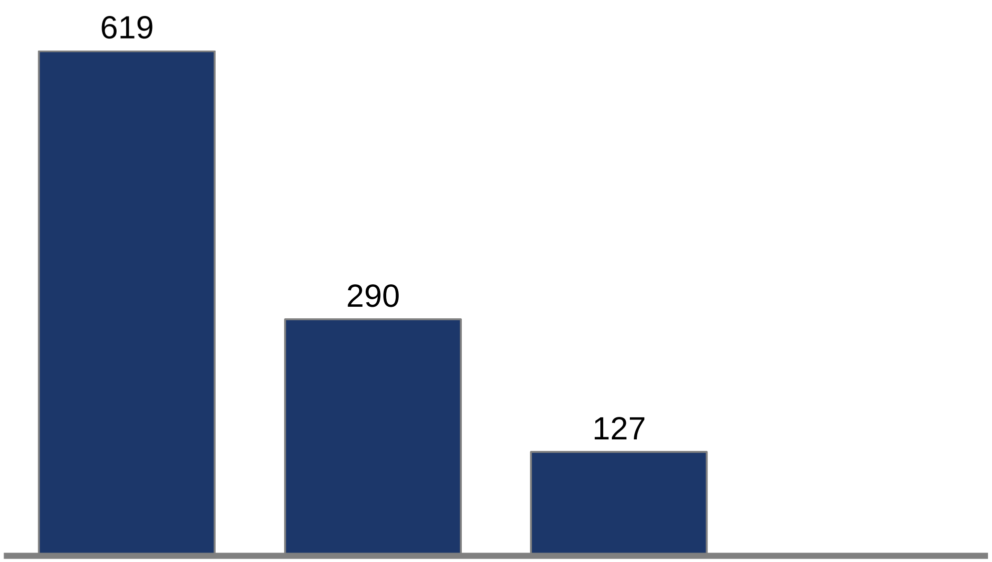
Permanent Work – Status

Permanent work and FEMA Reimbursement (Category C - G)

- The FEMA 428 program currently requires an estimate to be delivered by October 2019 (the Government has requested an extension of this deadline). Determining the preliminary estimate is an active and ongoing process in close coordination with FEMA, and the current discussion still focuses on cost-estimate procedures
- The Government of Puerto Rico created COR3 as a Division of the P3 Authority to lead the coordination, development, and execution of long-term recovery and reconstruction efforts. The COR3 has been created based on leading practices used in many jurisdictions, including New Jersey, Louisiana and New York, to ensure higher accountability, transparency and coordination of disaster recovery efforts

In Process Permanent Work Project Worksheets

$M



Permanent Work Categories

Category C: Roads and bridges

Category D: Water control facilities

Category E: Public buildings and contents

Category F: Public utilities

Category G: Parks, recreational, and other facilities

Transformation Timeline (Per Energy System Modernization Plan)

- Short-term priorities (1-3 year)
- Mid-term (3-7 years) and
- Long-term rebuild initiatives (7-10+ years)

1 Represents one Project Worksheet (PW); value of PW to be finalized

SOURCE: PREPA's "FEMA Flash Report" as of 3/29/19; and "Revised Fiscal Plan for Puerto Rico"

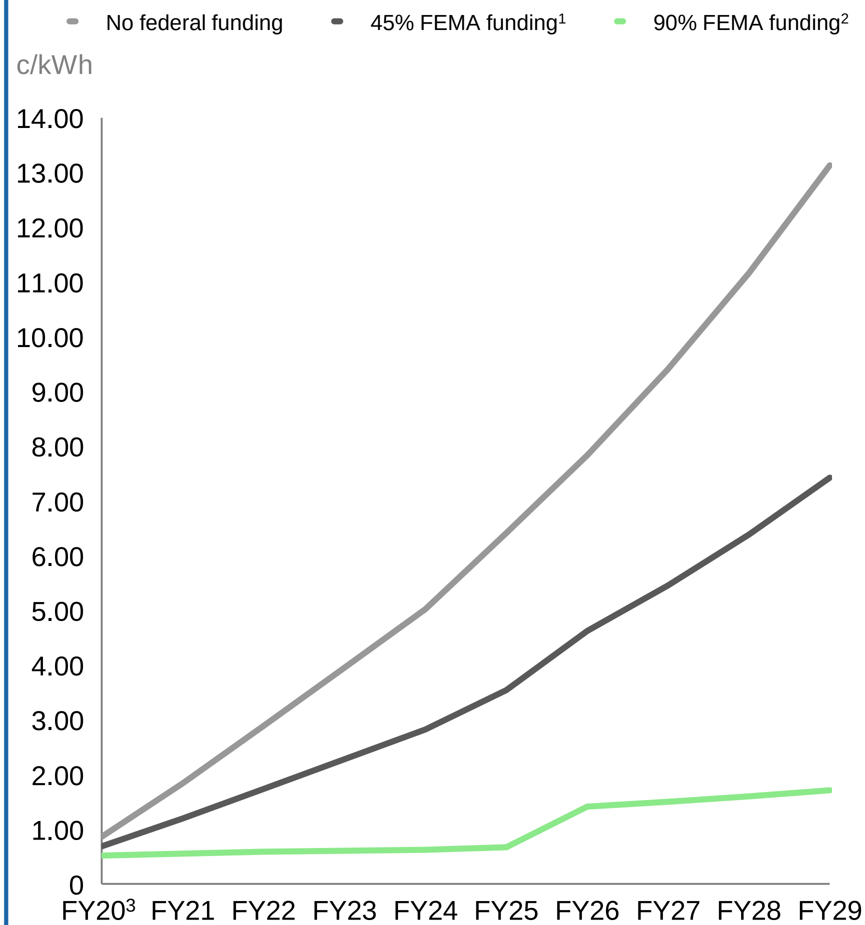
Should federal funding not materialize, ratepayer impact is ~13c/kWh by FY2029

CALCULATIONS ARE ILLUSTRATIVE

Assumptions

- **$16.4B in capex** required over the next 10 years, of which **$8.2B** is spent in FY2020-2024[4]
- Any amount required and not funded through federal funds would be funded through debt, with cost of debt passed on to ratepayers (6% assumed interest rate, and 40-yr asset life for depreciation)
- Federally funded amount is assumed to be sourced 90% from FEMA, and 5% CDBG, and 5% PREPA's expense
  - The 5% PREPA expense cost share is budgeted as a hedge in case CDBG funds are not disbursed for any reason
- CDBG funding is assumed to not be available starting FY2026, requiring all cost share to be budgeted as a PREPA expense
- Load for years FY2025-2029 are estimated based on FY2020-2024 forecasts[5]

Rate impact of capex-related costs



Takeaways

- Lack of federal funding would effectively result in a "capex surcharge" to ratepayers that would rise gradually with more invested capex—up to ~13 c/kWh by FY2029
- Unavailability of federal funding for rebuilding T&D system represent significant risk for overall service reliability and affordability.
- Federal funding support is also critical for delivering on system improvements necessary for resiliency and environmental compliance, including deployment of microgrids, distributed generation and renewable resources.

1 45% federal funding; 5% cost share, of which half (2.5%) is budgeted as a PREPA expense as a hedge.
2 90% federal funding; 10% cost share, of which half (5%) is budgeted as a PREPA expense as a hedge.
3 For the purposes of this analysis and comparability across years, assume a private O&M operator is already in place for the entire fiscal year FY20, even though that is not going to be the case.
4 Amount shown here is the same as the EGM projected amount, and meant to represent maximum (subject to revision). Actual funded amount may vary.
5 FY2025-2029 assumed to decline in the same rate as in FY2020-2024.

Puerto Rico Electric Power Authority

XI. Post-Certification Reporting

Post-Certification Reporting Requirements

PREPA has generally complied with the Certified Fiscal Plan's Post Certification Requirements, and has worked closely with the FOMB on the implementation of all required initiatives.

Reporting cadence:	Reporting to FOMB:
Weekly	Every Wednesday
Monthly	15th day after the end of the month; if not a business day, then the previous business day
Quarterly	15th day after the end of the quarter (single consolidated report)*

PREPA intends to update its reporting format and modify its reporting cadence for FY2020 to improve on the information reported and more effectively reflect advancement in implementation, as discussed in the following pages.

These reporting requirements are per the Fiscal Plan and do not limit the FOMB's discretion to require other information under PROMESA.

Note: All reporting to the FOMB should be in writing, on an NDA basis.
**PREPA may request waivers to extend reporting cadence as needed. FOMB will review such requests and grant such waivers as necessary or appropriate.*

Puerto Rico Electric Power Authority

Post-Certification PREPA Reporting Requirements

Requirements end upon transfer of legacy assets to private operators[1]

	Report type	Detail	Reporting Cadence
Resiliency & Resource Planning	**Implementation of IRP plan[2]**	Overview of generation to be added, with detailed information for each generation facility including type of generation, capacity, geography, cost to develop, and rationale for new investment over upgrading the grid, including near-term generation procurement and status of project delivery against milestones and cost/savings projections. Similar project-level detail to also be included for any new grid-related projects being executed in line with IRP.	▪ Quarterly
Resiliency & Resource Planning	**Implementation of grid modernization[2]**	Grid modernization plan should provide an overview of the major investment categories and projects PREPA is considering to deliver reliable, resilient power and status of project delivery against milestones	▪ Quarterly
Resiliency & Resource Planning	**Federal Funding Report**	Include quarterly updates on FEMA and CDBG funding programs, including amounts requested and for what projects, and status of disbursements and reimbursements and comparison against projections.	▪ Quarterly
Financial & Operational	**Implementation Program and Initiative Project Status Reports[2]**	**Separate reports, not included in consolidated monthly report.** Overall status summary for the initiative and milestones. Includes accomplishments, issues/risks and mitigations, decisions required, and estimates of capital investment and projected savings and status of initiative delivery against milestones and cost/savings projections.	▪ Bi-Monthly; one-half of the initiatives will be reported each month
Financial & Operational	**Income Statement**	Include three types of income statement: 1) Consolidated, 2) Generation, 3) Non-generation	▪ Quarterly
Financial & Operational	**Balance Sheet**	Include only consolidated balance sheet	▪ Quarterly
Financial & Operational	**Cash Flow Statement**	Consolidated cash flow report including all receipts and disbursements, accounts receivable, accounts payable	▪ Weekly ▪ Quarterly

Note: All reporting to the FOMB should be in writing, on an NDA basis.
1 PREPA has amended the reporting timeline to include periods post-Title III, with respect to any legacy assets that may not have been transferred to private operators. Requirements will not apply to T&D operator once in place
2 FOMB may provide a template on quarterly capex reporting (relevant to Implementation of IRP plan, Implementation of grid modernization plan, and other initiative status reports).

Puerto Rico Electric Power Authority

Post-Certification PREPA Reporting Requirements

Requirements end upon transfer of legacy assets to private operators[1]

Financial & Operational

Report type	Detail	Reporting Cadence
Debt Service Statement	Include a statement that shows the timeline of remaining debt to be paid, components of debt, and debt repayment; this statement should be a “double click” into the balance sheet regarding debt components	▪ Quarterly
Budget to Actuals (Reporting requirement is separate from any requirement under Section 203 in PROMESA)	Tracking of certified Budget to Actual based on template to be provided by FOMB: ▪ Include explanation for material variances (greater than 10% and $30 million) ▪ Include I/S in the reporting package ▪ Provide quarterly budget reporting	▪ Quarterly
Operational Metrics Reporting	Reporting on operational performance metrics, including: ▪ Average actual incurred rates by customer type broken down into cost driver components, e.g. F&PP, Base Rate, CILT ▪ Monthly SAIDI, SAIFI, and CAIDI by customer type ▪ Summary of all critical services (e.g. major industrial, commercial customer locations) without power for >48 hours ▪ OSHA events	▪ Monthly

Note: All reporting to the FOMB should be in writing, on an NDA basis.
1 PREPA has amended the reporting timeline to include periods post-Title III, with respect to any legacy assets that may not have been transferred to private operators. Requirements will not apply to T&D operator once in place

Puerto Rico Electric Power Authority

Post-Certification – PREPA Reporting Requirements

Requirements end upon transfer of legacy assets to private operators[1]

Fuel and Purchased Power

Report type	Detail	Reporting Cadence
Economic Dispatch	Build an economic dispatch model for the Puerto Rico grid to forecast production cost savings at a high level and provide reporting against milestones and projections.	▪ Weekly: Generation (MWh by asset); Fuel burn (BOE) & fuel cost ($) by generating asset by fuel type
Increased LNG Utilization	Develop and implement a RFP for the conversion of the San Juan generation plant to natural gas operation and provide reporting against milestones and projections.	▪ Weekly: LNG plants downtime ▪ Monthly: operational progress on plant conversion
Purchased Power - Renewable - Price Improvement	Renegotiate renewable power purchase agreements to obtain lower prices reflective of market conditions and negotiate renewable PPAs from shovel ready renewable projects to replace existing providers. and provide reporting against milestones and projections.	▪ Monthly: Confidential reporting to FOMB
Purchased Power - Conventional - Price Improvement	Renegotiate conventional power purchase agreements to obtain lower prices reflective of market conditions and provide reporting against milestones and projections.	▪ Monthly: Confidential reporting to FOMB
Fuel Supply Contracts - Price Improvement	Achieve F&PP savings targets set via the Fuel Procurement Strategy by Q2 FY19 and provide reporting against milestones and projections.	▪ Monthly: Confidential reporting to FOMB ▪ One-time: Fuel Procurement Strategy
Commercial Loss Reduction[2]	Achieve reduction in technical and non-technical loss and increase system efficiency. Two projects are underway to address losses. First, near term reduction will be addressed by replacing damaged meters, which a pilot project currently under development. Second, the Smart Meter project currently in the RFP process will provide a longer term more effective reduction in losses.	▪ Monthly: Energized to billed gap, non-technical loss

Note: All reporting to the FOMB should be in writing, on an NDA basis.

1 PREPA has amended the reporting timeline to include periods post-Title III, with respect to any legacy assets that may not have been transferred to private operators. Requirements will not apply to T&D operator once in place

2 Estimates include technical and non-technical loss reduction. These effects are to be disaggregated in future implementation reporting

Puerto Rico Electric Power Authority

Post-Certification PREPA Reporting Requirements

Requirements end upon transfer of legacy assets to private operators[1]

Labor Operational Expenses

Report type	Detail	Reporting Cadence
Medical Benefit Reform	Prepare and execute a contract for employee healthcare plans effective January 1, 2019 with monthly employee contributions and increased co-payments structure in line with industry norms	▪ Complete
Overtime Expense Reform	Review PREPA Overtime spending and establish appropriate reporting and approval procedures for applicable Directorates, including establishing hiring needs to reduce OT spending and provide reporting against milestones and projections.	▪ Monthly: number of overtime hours utilized and average per hour overtime payrate
Retirement Processing	Develop and implement a new system to handle retirement requests of employees in a more timely and cost effective matter and provide reporting against milestones and projections.	▪ Monthly: number of temporary and permanent employees[2]; retirement backlog by time since request
Personnel Capacity	Conduct a study of the PREPA labor force to determine optimal staffing levels to fulfill PREPA's mission considering current workload and objectives and provide reporting against milestones and projections.	▪ Future reporting to be based on findings of capacity assessment; revised target dates for Union negotiations by Q2 FY19

Note: All reporting to the FOMB should be in writing, on an NDA basis.
1 PREPA has amended the reporting timeline to include periods post-Title III, with respect to any legacy assets that may not have been transferred to private operators. Requirements will not apply to T&D operator once in place
2 By directorate and rank, including written explanation of ending monthly variance

Puerto Rico Electric Power Authority

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of PUERTO RICO ELECTRIC POWER AUTHORITY, Debtor.	PROMESA Title III Case No. 17 BK 4780-LTS **Court Filing Relates Only to PREPA and Shall Only Be Filed in Case No. 17 BK 4780-LTS**
In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of THE COMMONWEALTH OF PUERTO RICO, *et al.*, Debtors.[1]	PROMESA Title III No. 17 BK 3283-LTS (Jointly Administered)

<u>DECLARATION OF CHRISTIAN SOBRINO VEGA</u>

Pursuant to 28 U.S.C. § 1746, I, Christian Sobrino Vega, hereby declare as follows under penalty of perjury under the laws of the United States of America:

1. I am the Chief Executive Officer of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), a member of the Governing Board of the Puerto Rico Electric Power Authority ("PREPA"), and an *ex officio* member of the Financial Oversight and

[1]The Debtors in these Title III cases, along with each Debtor's respective Title III case number listed as a bankruptcy case number due to software limitations and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico ("<u>Commonwealth</u>") (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("<u>COFINA</u>") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("<u>HTA</u>") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("<u>ERS</u>") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686); and (v) Puerto Rico Electric Power Authority ("<u>PREPA</u>") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747).

Management Board for Puerto Rico ("FOMB"). I am over 18 years of age, have personal knowledge of the matters set forth herein, and if called upon and sworn as a witness, I could and would testify competently thereto.

2. AAFAF is the "fiscal agent, financial advisor, and reporting agent of all entities of the Government of Puerto Rico" and the "government entity responsible for the collaboration, communication, and cooperation" between the Elected Government and the Oversight Board.[2] AAFAF also "oversee[s] all matters relating to the restructuring, renegotiation or adjustment of any existing or future obligation . . . of the Government of Puerto Rico."[3] Furthermore, AAFAF is the "only entity of the Government of Puerto Rico authorized to, on behalf of the Government of Puerto Rico or any component thereof, negotiate, restructure and/or enter into Creditors' Agreements," which are defined by statute to include "a consented debt restructuring agreement" like the RSA.[4]

3. AAFAF, as the Fiscal Agent for PREPA, negotiated the Definitive Restructuring Support Agreement dated May 3, 2019, entered into by and among PREPA, AAFAF, the FOMB (collectively, the "Government Parties"), the Ad Hoc Group of PREPA Bondholders ("Ad Hoc Group") and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (collectively "Assured") (the "RSA") on PREPA's behalf. PREPA's management did not have any significant involvement in negotiating the RSA.

4. As Chief Executive Officer of AAFAF, and a member of PREPA's Governing Board, I oversaw and directed AAFAF's efforts to negotiate the RSA for PREPA, which included extensive discussions with PREPA's creditors. AAFAF also coordinated closely with and

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[2] Act 2-2017, § 5(a).
[3] *Id.* § 5(c).
[4] *Id.* §§ 3(b), 8(q).

provided feedback to the Oversight Board and its advisors regarding the negotiations. AAFAF participated in the RSA negotiations primarily through outside counsel, Nancy Mitchell and Maria DiConza of O'Melveny & Myers LLP, who worked, under my direction, to represent both AAFAF and PREPA. A team from Ankura Consulting LLC ("Ankura") worked at counsel's direction to advise AAFAF and PREPA regarding certain aspects of the RSA. While I was the key decision-maker for AAFAF and PREPA, the day-to-day negotiation with the Ad Hoc Group and Assured and other interested parties were handled by Ms. Mitchell and Ms. DiConza, with support from Ankura.

5. As CEO of AAFAF and a member of PREPA's Governing Board, I am also involved in ongoing efforts to transform PREPA. I, along with Natalie Jaresko, the Executive Director of the FOMB, co-head PREPA's Transformation Supervisory Committee. This Committee provides feedback regarding ongoing efforts to transfer to a private party the operation and management of PREPA's Transmission and Distribution System to the Puerto Rico Public-Private Partnerships Authority ("P3 Authority"), who is overseeing the selection process.

6. Through the RSA, the bondholders who have joined the agreement (the "Supporting Holders") agreed, among other things, (1) to vote for any PREPA plan of adjustment that would provide them with Tranche A Bonds in principal amount equal to 67.5% of total Applicable Bond Claims, and Tranche B Bonds in principal amount equal to 10% of the total Applicable Bond Claims (together, the "Securitization Bonds"); (2) that the Securitization Bonds would not contain certain protections accorded to bondholders that might otherwise be standard, such as a rate covenant and defaults if revenues are insufficient to pay debt service, instead, providing a Transition Charge that would be capped, subject to the Demand Protections, irrespective of whether system revenues were sufficient to pay debt service; and (3) to support

dismissal of the Renewed Lift Stay Motion,[5] and to refrain from pursuing or directing the Trustee to pursue, any future receivership litigation.[6] In exchange, the Government Parties have agreed not to challenge the Supporting Holders' claims in a reduced amount, as described above, except in the limited circumstances set forth in the RSA. Although the Government Parties have commenced a lawsuit challenging the PREPA Bondholders' liens (the "Lien Challenge") to preserve statutes of limitation, pursuant to the provisions of the RSA, the Government Parties are simultaneously moving to stay such action.

7. The Government Parties' agreement to a stipulated treatment of the Supporting Holders' claims, and securing the Supporting Holders' resulting support for an eventual plan of adjustment, pave the way for PREPA's exit from Title III proceedings, and reduce litigation risk and costs attendant to the Title III case.

8. It is my understanding that the RSA will effect a settlement with the Supporting Holders of the Renewed Lift Stay Motion and of any other attempt to seek appointment of a receiver (the "Receivership Litigation"). As Chief Executive Officer of AAFAF and a PREPA Board Member, I monitored developments in the receivership litigation, including the Renewed Lift Stay Motion, and considered the effect that appointment of a receiver, or even protracted litigation over the potential appointment of a receiver would have on PREPA. I determined that a consensual resolution of receivership litigation is of great value to PREPA.

9. As a PREPA Board Member, I am keenly aware of the disruption the appointment of a receiver would cause to PREPA's day-to-day operations. For instance, key aspects of PREPA's hurricane recovery efforts, and day-to-day operations, require close cooperation between

[5] *Motion of National Public Finance Guarantee Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. for Relief from the Automatic Stay to Allow Movants to Enforce Their Statutory Right to Have a Receiver Appointed*, No. 17-4780, ECF No. 975 (D.P.R. Oct. 3, 2018).
[6] RSA, Section 1 (xxxvi), (xxxiv), Section 3(a),(d).

PREPA's management team and multiple governmental agencies, including without limitation, the Oversight Board, the Office for Contracts and Procurement Compliance, ("OCPC"), the Puerto Rico Energy Bureau ("PREB"), the Central Office for Recovery, Reconstruction and Resiliency ("COR3"), and the P3 Authority.

10. Both AAFAF and the Oversight Board have an oversight role with respect to budgeting and Fiscal plan compliance. With respect to procurement, the OCPC supervises PREPA's procurement process, and PREPA's regulator asserts power to review certain procurements. PREPA has also received significant federal disaster aid following Hurricanes Maria and Irma, and obtaining federal reimbursements for hurricane restoration work requires coordination with COR3, and its advisor, Navigant Consulting. P3 Authority manages contracts and projects involving private funding, including the planned concession of PREPA's Transmission and Distribution system to a private partner (the "T&D Concession"). As CEO of AAFAF and as a member of PREPA's Governing Board, I have witnessed this cooperation firsthand, and have been uniquely positioned to understand how vital seemly intergovernmental cooperation is to PREPA's functions. Injecting a receiver, who would not have any pre-existing relationship with any of these agencies, into PREPA's operations would necessarily cause disruption, confusion, and uncertainty that would harm PREPA.

11. Replacing PREPA's management with a receiver would also be a setback to the efforts PREPA's management is currently undertaking to improve its operations. PREPA is in the process of implementing a number of reforms and operational improvements aimed at improving PREPA's performance and efficiency. Replacing the current management team and advisors that are up-to-speed on these measures and invested in their success has the potential to delay, derail, or impair progress. No matter how technically qualified or professionally experienced, a receiver

would face a daunting task in comprehending the status of myriad ongoing initiatives, assessing their merit and formulating his or her strategy for the future. As a PREPA Board Member, I am concerned that a receiver would, at best, be ineffective and, at worst, potentially derail, delay or impair PREPA's ability to implement many of these initiatives.

12. Appointment of a receiver would also impose a significant expense to PREPA. An expert retained by the Movants to the Renewed Receiver Motion estimated a receiver would cost "between $15 and $20 million per year," by using the projected annual cost in the Fiscal Plan of the T&D Concession, and the annualized cost of services billed to PREPA by two consultants: FEP and by Alix Partners.[7] The cost of a receiver, with whom PREPA's management would not have the same bargaining power that it has with other contract counterparties, could be significantly more.

13. Importantly, even if PREPA were to prevail in the receivership litigation, the path to a litigation victory would be costly to PREPA, both in terms of the financial cost of protracted litigation, and the disruptive impact ongoing litigation could have on the T&D Concession.

14. The Receivership Litigation has been ongoing for nearly two years.[8] On July 18, 2017, the Supporting Holders, together with National Public Finance Guarantee Corporation ("National") and Syncora Guarantee Inc. ("Syncora") filed the First Receiver Motion, which asked the Court to lift the automatic stay in PREPA's Title III case to allow the movants to initiate proceedings in Puerto Rico court to pursue appointment of a receiver over PREPA. On September

[7] Expert Declaration of Sandra Ringelstetter Ennis, ¶ 155, No. 17-04780, ECF No. 1106 ¶ 156 n.195.
[8] *Motion of Ad Hoc Group of PREPA Bondholders, National Public Finance Guarantee Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. for Relief from the Automatic Stay to Allow Movants to Enforce Their Statutory Right to Have a Receiver Appointed*, No. 17-04780, ECF No. 74 (D.P.R. July 18, 2017) (the "First Receiver Motion"); *Motion of National Public Finance Guarantee Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. for Relief from the Automatic Stay to Allow Movants to Enforce Their Statutory Right to Have a Receiver Appointed*, No. 17-4780, ECF No. 975 (D.P.R. Oct. 3, 2018) (the "Renewed Receiver Motion").

14, 2017, this Court denied the First Receiver Motion.[9] PREPA and the FOMB's victory did not stop the litigation. The Bondholders appealed this Court's ruling, and, on August 8, 2018, nearly a year after this Court's initial order, the First Circuit vacated and remanded this Court's decision.[10]

15. Receivership litigation started anew shortly thereafter when, on October 3, 2018, Assured, National, and Syncora filed the Renewed Receiver Motion.[11] The Renewed Receiver Motion alleged that the Movants were entitled to relief from the automatic stay to pursue appointment of a receiver on the ground that PREPA had allegedly mismanaged its operations and hurricane relief efforts. Litigating this dispute put virtually every aspect of PREPA's operations at issue. Defending this litigation was expensive to PREPA, both in terms of the amount spent on legal fees, and of the amount of time that mounting PREPA's defense required from PREPA's management and consultants, who should have been able to dedicate one hundred percent of their time and resources on transforming and improving PREPA.

16. Contentious litigation and wide-ranging, costly discovery continued for months, until PREPA and the Oversight Board reached a deal with Assured. Specifically, on May 3, 2019, while the Renewed Receiver Motion was in the midst of fact and expert discovery, the Government Parties, the Ad Hoc Group, and Assured finalized the RSA. On May 9, 2019, this Court stayed further litigation, over National's objection, on the Renewed Receiver Motion pending the conclusion of litigation on the Government Parties' Rule 9019 Motion and Motion to Dismiss the Renewed Receiver Motion.[12] Absent the settlement of the Receiver Litigation in the RSA,

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[9] *In re Fin. Oversight & Mgmt. Bd. for Puerto Rico*, 301 F. Supp. 3d 278 (D.P.R. 2017).
[10] *In re Fin. Oversight & Mgmt. Bd. for Puerto Rico*, 899 F.3d 13 (1st Cir. 2018).
[11] Effective July 30, 2018, just nine days before the First Circuit's Order, the Government Parties had agreed to a Preliminary RSA with the Ad Hoc Group. Accordingly, the Ad Hoc Group did not join the Renewed Receiver Motion.
[12] *Order Extending the Deadlines Applicable to the Motion of National Public Finance Guarantee Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. for Relief from Automatic Stay*, No. 17-4780, ECF No. 1230 (D.P.R. May 9, 2019).

litigation of the Renewed Receiver Motion would have continued before this Court, likely to be followed by another year of litigation before the First Circuit, and, if the Movants prevailed in obtaining an order lifting the automatic stay in PREPA's Title III case, another round of litigation in the Puerto Rico Courts regarding whether a receiver should be appointed under Puerto Rico law.

17. This prolonged litigation has been costly to PREPA. If it were to continue, it would cast a cloud of uncertainty over the Government's negotiations with outside parties to modernize PREPA's infrastructure, including through the T&D Concession. The ongoing threat that PREPA's operations could be turned over to a receiver appointed at the behest of the Bondholders complicates the T&D Concession.

18. For instance, if a receiver is appointed to oversee PREPA's operations, whether the Government could subsequently turn PREPA's operations over to a concessionaire, and the extent to which a receiver would have authority over the concessionaire could all become subjects of more litigation. Settling the Receivership Litigation facilitates the T&D Concession by removing this uncertainty.

19. In addition to agreeing not to pursue the Receivership Litigation, the Supporting Holders have also agreed to support any Transformation Transaction, defined broadly in the RSA to include "any and all transactions supported by the Government Parties whereby PREPA or the Government of Puerto Rico establishes one or more sales, leases, public-private partnerships, management contracts, concessions, or similar arrangements or transactions related to any of PREPA's functions, assets, services, or facilities, including without limitation, any 'PREPA Transaction' as defined in the Puerto Rico Electric Power System Transformation Act, Act 120-2018 (approved June 21, 2018)."[13]

[13] RSA, Section 1 (cxxi)

20. Accordingly, by settling the Receivership Litigation and securing an agreement to support Transformation Transactions, the RSA provides some assurance to potential bidders that consummation of the Transformation Transactions will not be impeded by litigation with legacy debtholders.

21. Prevailing in the Receivership Litigation would take months or years of litigation beyond the two years PREPA has already spent litigating. Even a complete victory would come at great expense to PREPA, would come too late to have any meaningful benefit to the Transformation Transactions, and would bring no assurances that the Supporting Holders would not interfere with the Transformation Transactions. Conversely, if the Bondholders prevailed in the Receivership Litigation, a receiver could potentially remain in place at PREPA until the PREPA bonds are fully repaid, which would impose significant harm to PREPA and could interfere with the Government's efforts to negotiate and implement Transformation Transactions.

22. The RSA provides benefits to PREPA that justify the financial consideration the RSA provides to Supporting Holders. Under the Trust Agreement, PREPA's Bondholders argue they have a right to be repaid from PREPA's net revenues, have a right to appoint a receiver to enforce a covenant to raise rates to cover debt service. By contrast, the Securitization Bonds will be paid solely through a Transition Charge, which is capped, subject to the Demand Protections, the Securitization Bonds cannot be declared in default if the Transition Charge is insufficient to pay debt service, and the bondholders' remedies will be enforceable only against a special purpose vehicle ("SPV"), not PREPA. Accordingly, this new bond structure avoids the prospect that PREPA could be placed back into Title III.[14]

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[14] The RSA also provides that Supporting Bondholders receive certain post-petition payments on account of their agreement to forbear from exercising any remedies during the lengthy period between RSA approval and ultimate plan confirmation.

23. Moreover, on July 1, 2019, the Government Parties filed the Lien Challenge. Litigating the Lien Challenge would run the risk that the Bondholders would prevail (and therefore potentially be entitled to 100% recovery), and would take as long as the Receivership Litigation to litigate to its conclusion, if not longer. The compromise with the Supporting Bondholders in the RSA would avoid the expense and uncertainty of continuing the Lien Challenge. In addition, under the RSA the Supporting Bondholders are agreeing to take meaningful haircuts on their claims. As noted above, the Supporting Bondholders have agreed to vote for any PREPA plan of adjustment that would provide them with Tranche A Bonds in principal amount equal to 67.5% of total Applicable Bond Claims, and Tranche B Bonds in principal amount equal to 10% of the total Applicable Bond Claims. In other words, the Supporting Holders have agreed to a significant reduction of their claims, and the RSA delivers a potential impaired accepting class to facilitate plan confirmation.

24. Accordingly, as Chief Executive Officer of AAFAF, and a member of PREPA's Governing Board, I determined, taking all of these factors into account, that the compromise set forth in the RSA is reasonable. On April 17, 2019, I, along with Nancy Mitchell (AAFAF and PREPA's outside counsel), made a presentation to a joint session with AAFAF's Board of Directors and PREPA's Governing Board, explaining the key provisions of the RSA, the above-described benefits, and countervailing considerations, including the possibility that the Government Parties could prevail in the Lien Litigation. Upon considering that presentation, on August 17, 2019, AAFAF's Board of Directors issued a resolution determining the RSA to be reasonable and necessary, approving the RSA, authorizing PREPA to enter the RSA and execute its rights thereunder, and authorizing me to execute the RSA on behalf of AAFAF. That same day, PREPA's Governing Board issued a resolution determining the RSA is in the best interest of

PREPA, and authorizing either PREPA's Executive Director or Director of Finance to execute the RSA on its behalf.

25. On May 3, 2019, I executed the RSA on behalf of AAFAF and PREPA's Executive Director, Jose F. Ortiz, executed the RSA on behalf of PREPA. As CEO of AAFAF and a member of PREPA's Government Board, I believe that the RSA is a reasonable compromise of complicated disputes, and that the RSA is in PREPA's best interest.

I declare under penalty of perjury under 28 U.S.C. § 1746 that the foregoing is true and correct.

Executed this 2nd day of July 2019 at San Juan, Puerto Rico.

Christian Sobrino Vega